Agriculture Financial Services Corporation

Unique Financial Services

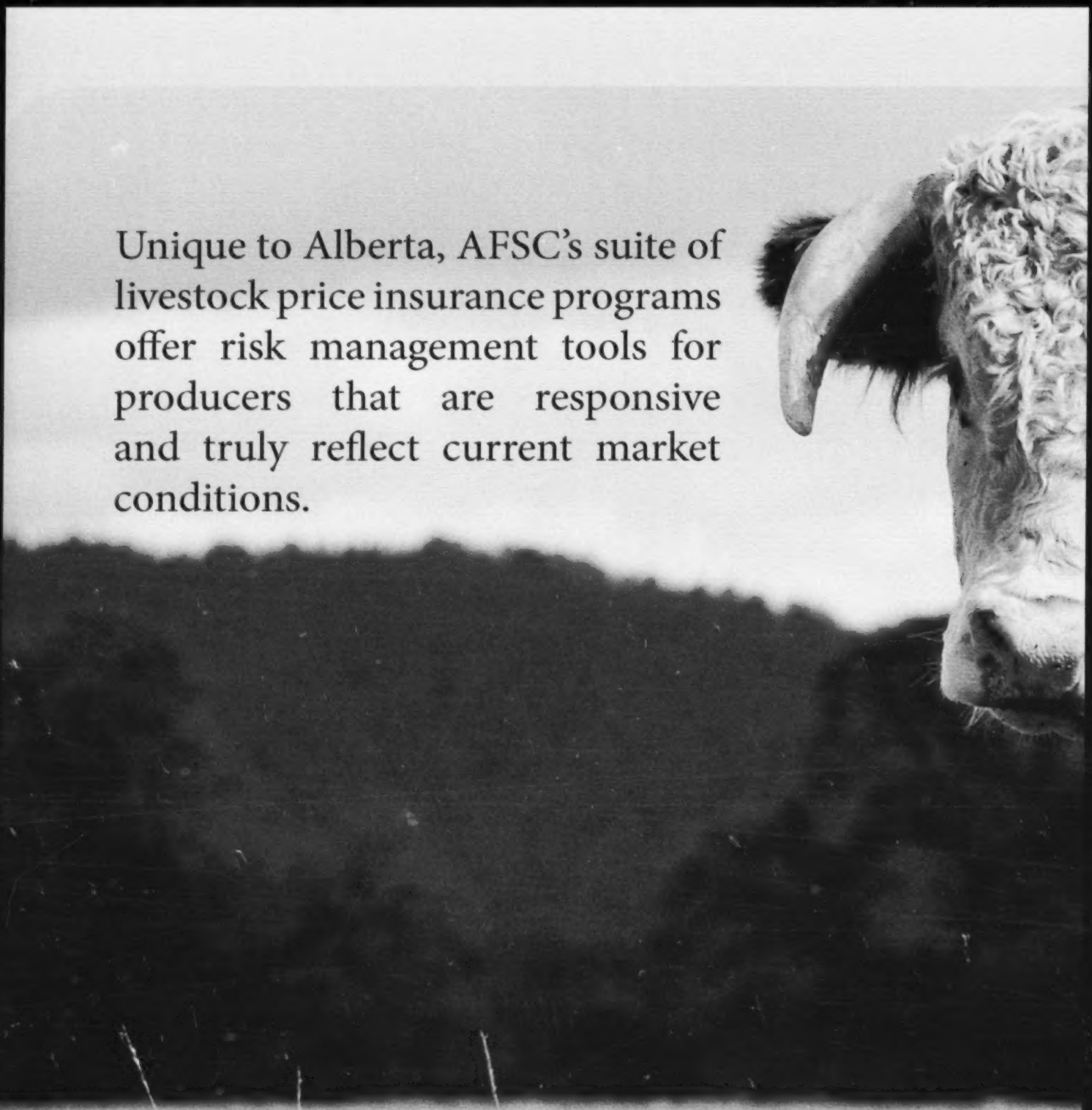
AFSC

INSURANCE • LENDING • INCOME STABILIZATION

Annual Report 2011-2012

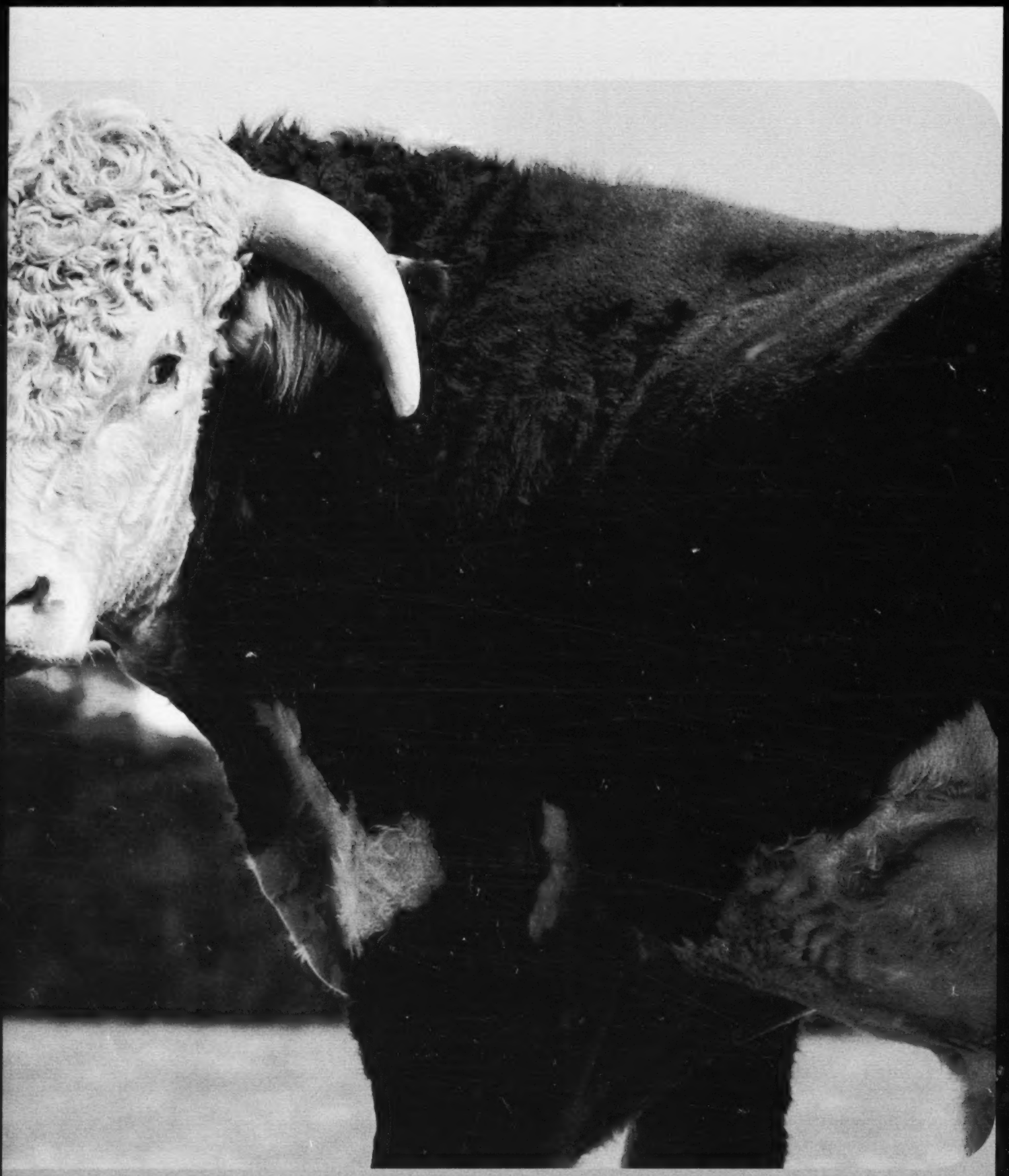
AGRICULTURE FINANCIAL SERVICES CORPORATION 2011-2012

During 2011-12, AFSC lent over $490 million. These loans generated an economic impact of $790 million in communities across Alberta. Since 1972, AFSC has provided a consistent source of capital essential to helping grow small and medium sized businesses.



Unique to Alberta, AFSC's suite of livestock price insurance programs offer risk management tools for producers that are responsive and truly reflect current market conditions.

AFSC's innovative insurance programs are built for producers to customize coverage to suit their operation.



AGRICULTURE FINANCIAL SERVICES CORPORATION 2011-2012

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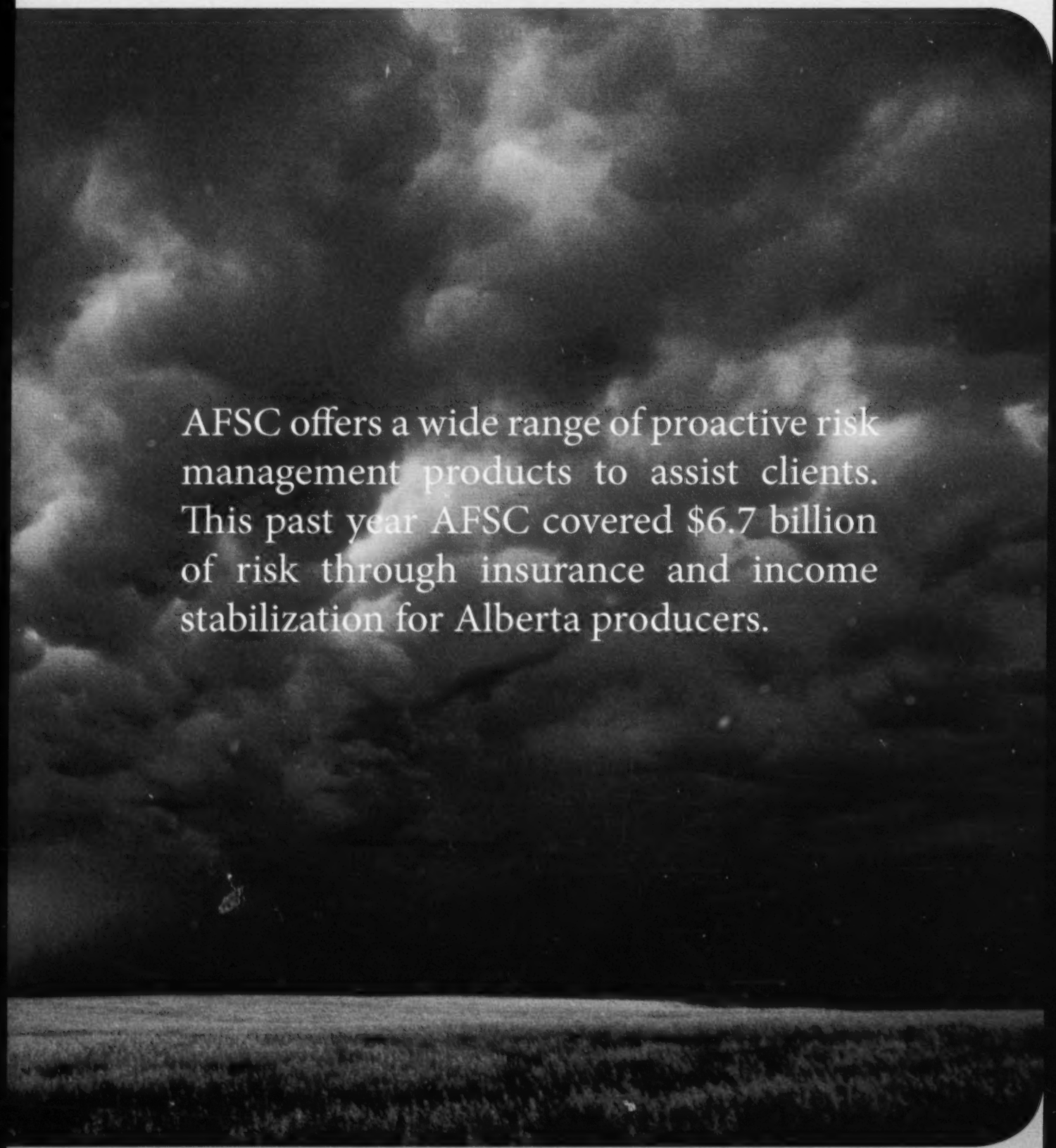
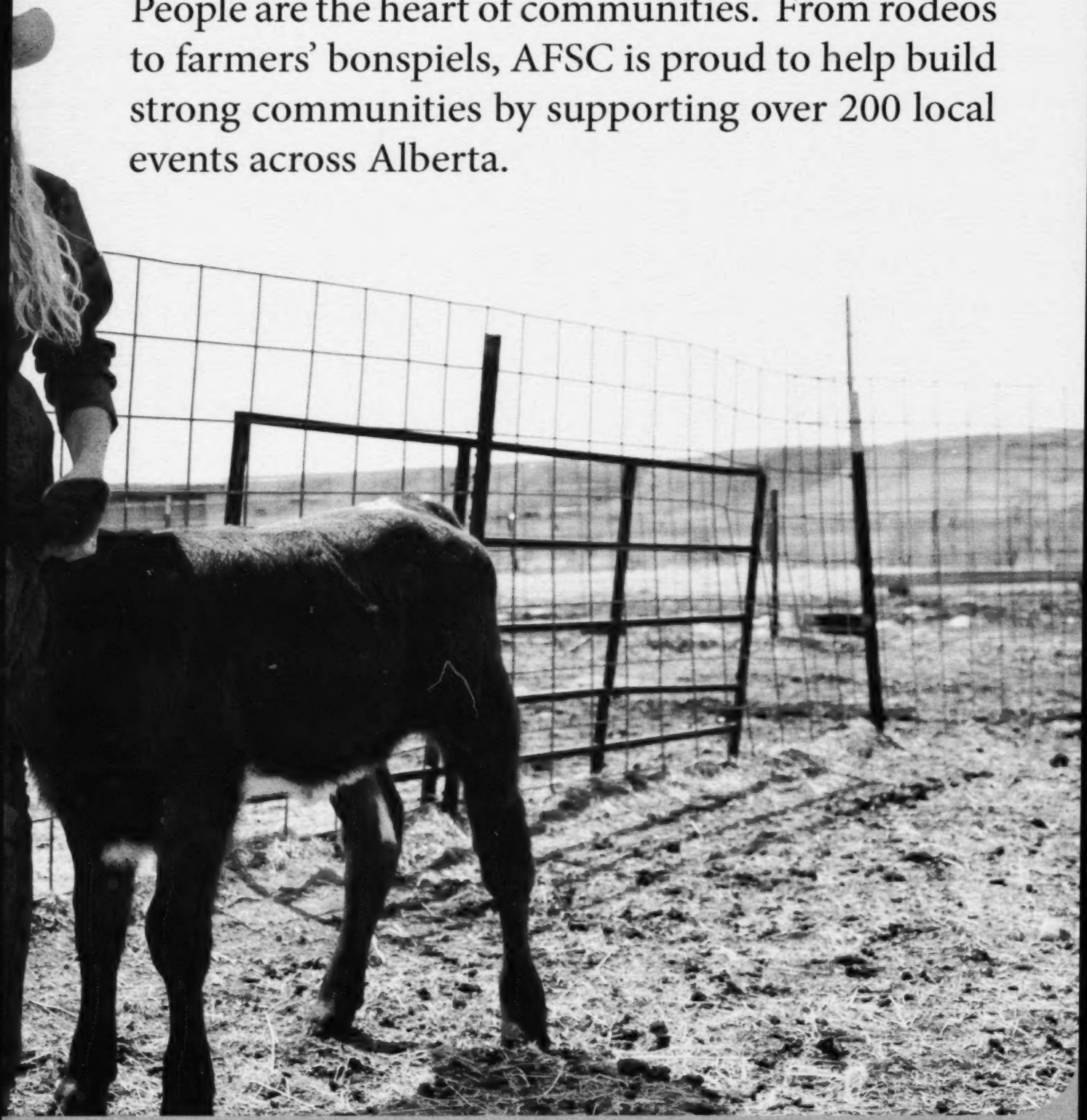
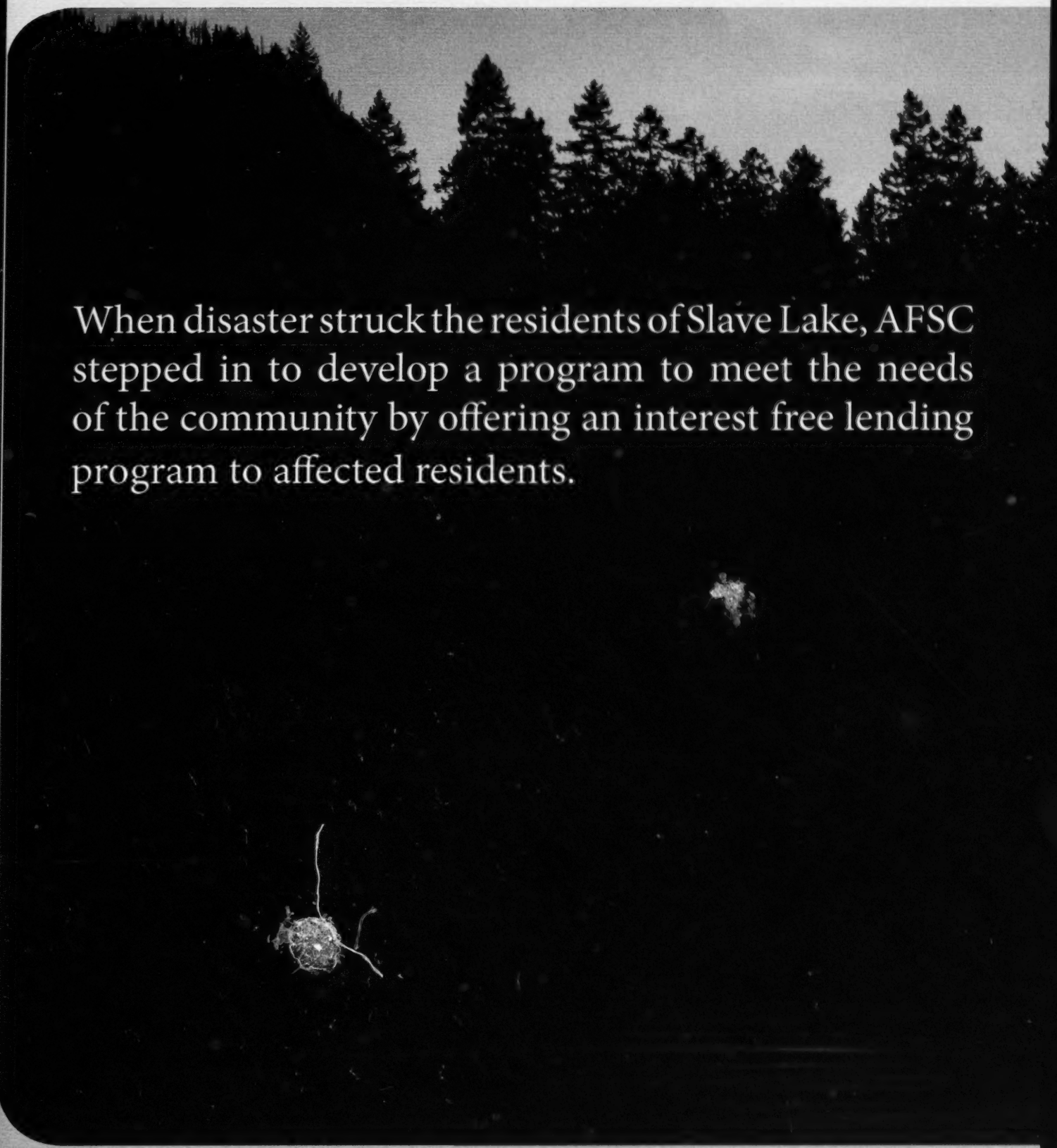

AFSC offers a wide range of proactive risk management products to assist clients. This past year AFSC covered $6.7 billion of risk through insurance and income stabilization for Alberta producers.

AGRICULTURE FINANCIAL SERVICES CORPORATION 2011-2012

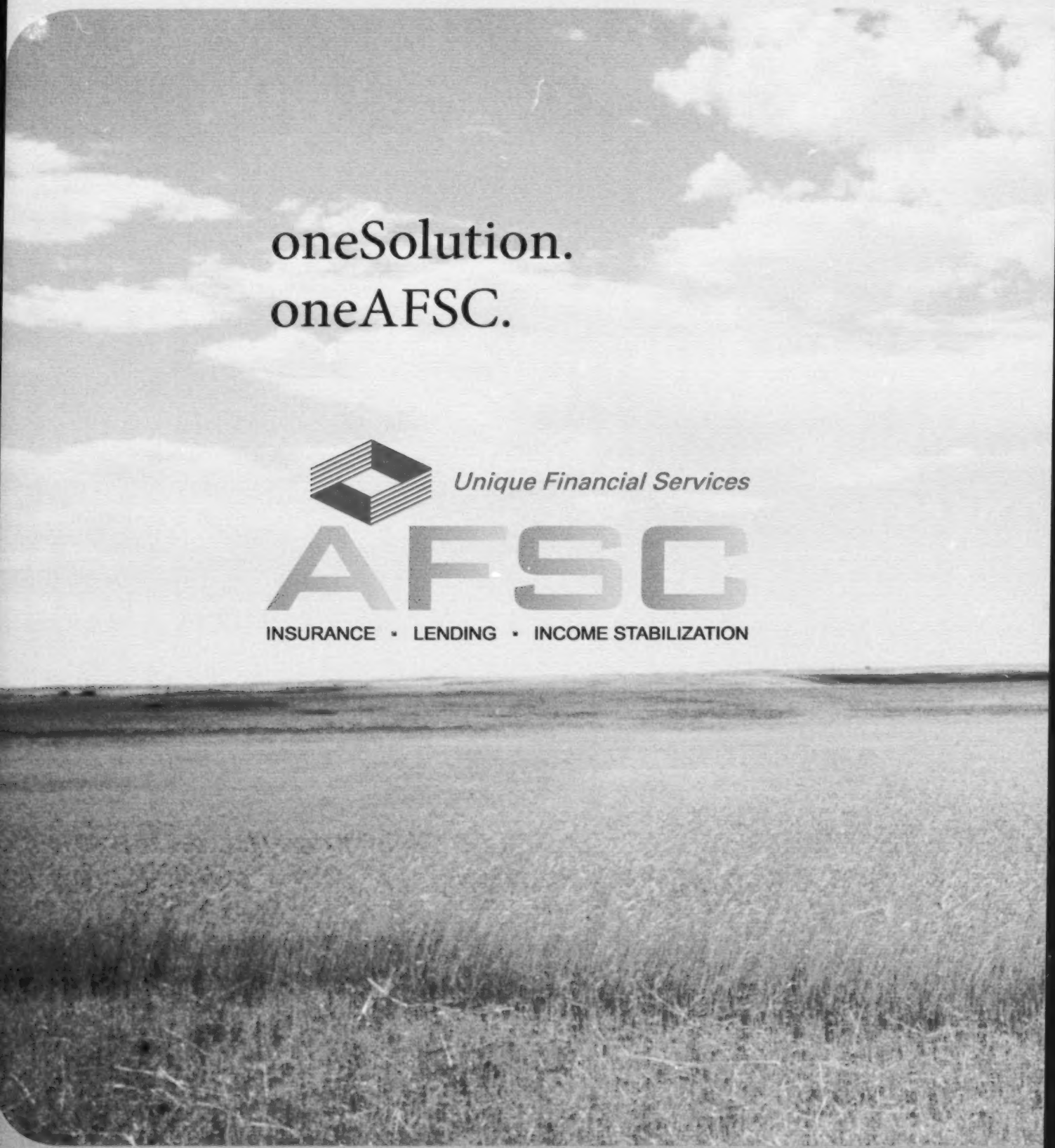
People are the heart of communities. From rodeos to farmers' bonspiels, AFSC is proud to help build strong communities by supporting over 200 local events across Alberta.





When disaster struck the residents of Slave Lake, AFSC stepped in to develop a program to meet the needs of the community by offering an interest free lending program to affected residents.

As of March 31, 2012 AFSC had approved almost 100 applications for nearly $70 million dollars in lending, with more applications pending.



AGRICULTURE FINANCIAL SERVICES CORPORATION 2011-2012

Agriculture Financial Services Corporation 2011-2012

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Letter of Transmittal

June 15, 2012

The Honourable Verlyn Olson
Minister of Agriculture and Rural Development
228 Legislature Building
10800 97 Avenue
Edmonton, AB Canada T5K 2B6

Dear Minister Olson:

On behalf of the Board of Directors, we are pleased to submit the seventeenth annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c. A-12) the report contains a summary of the transactions and affairs of the Corporation, its revenues and expenditures for the fiscal year ended March 31, 2012.

The report also contains audited financial statements, comprised of the statement of financial position, statement of operations, statement of cash flows and notes to the financial statements.

Yours truly,

H.D. (Harry) Haney
Chair

Brad Klak
President and Managing Director

ALBERTA
AGRICULTURE AND RURAL DEVELOPMENT

Honourable Verlyn Olson, Q.C.
MLA, Wetaskiwin-Camrose

MESSAGE FROM THE MINISTER OF AGRICULTURE AND RURAL DEVELOPMENT

The agriculture industry is vital to the people of Alberta and to the world. As an industry, agriculture is at the heart of our province, intertwined with land use, water supply, and energy. Agricultural products are also linked to our dietary choices and resulting health. As the Province's second largest industry, agriculture generated over $10 billion in receipts in 2011. Our industry directly and indirectly employs 70,000 Albertans. For every on-farm primary producer, there are four off-farm jobs.

Premier Redford and the Government of Alberta are committed to creating a sustainable, profitable and adaptable sector where innovation is encouraged and enabled and international investment is sought out and welcomed. AFSC shares in this vision, and acts to operationalize it through its programs and its people. AFSC encourages growth and innovation in agribusiness and Alberta communities through lending programming and unique made-in-Alberta solutions like the Livestock Price Insurance Programs. AFSC earned recognition for its innovation, winning a Silver Premier's Award of Excellence for the Cattle Price Insurance Program (CPIP) in September of 2011.

To maintain and grow a competitive and profitable agriculture production and supply chain, farm businesses and industry must manage risk. AFSC partners with producers and provides tools to address risk. By providing AgriInsurance and AgriStability programs, hail and livestock insurance, and flexible lending solutions, AFSC backstops many of the sector's risks, uncontrollable losses and producer and agribusiness needs for increased capital. The scope of programming may change in future years under Growing Forward 2, the next governing policy framework for national business risk management and disaster assistance programs, which is being developed for April 2013 with input from all provinces.

During 2011 Alberta producers faced a variety of challenges with weather. Drought in the North and flooding in the South were balanced with amazing growing conditions and high commodity prices. AFSC responded to these circumstances through its products and services, and again delivered an AgriRecovery initiative to assist crop producers affected by excess moisture. Furthermore, AFSC was well positioned to help when the unprecedented wildfires burned over 500 structures in the Town of Slave Lake and nearby communities, offering a disaster assistance benefit to Slave Lake commercial businesses devastated by the wildfire, as part of a larger Government of Alberta effort to restart the area's economy.

To address the future sustainability of agriculture and rural communities in Alberta, AFSC will focus on intergenerational transfer, working with producers who are ready to transfer their operations on to their heirs. In the same way, in order to ensure that AFSC can be strong and ready to meet the needs of tomorrow's producers, the corporation will initiate its own transformation focused on client-centric service, and succession planning.

Thank you to the Corporations' Board, management and staff who supported and served our business and agriculture partners across Alberta during 2011-12. I look forward to continued success in 2012-13.

Verlyn Olson
Minister

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2011-2012 CHAIR MESSAGE

Market share is critical to our industry's success and sustained prosperity. AFSC helps to grow Alberta's market share domestically and internationally through debt capital financing and a focus on long-term, sustainable market expansion and enhanced competitiveness. The broader sustainability of the industry and of rural communities is supported through AFSC's next-generation business risk programming. Over the course of 2011-12 AFSC continued to recognize opportunities to meet the specific needs of both individual clients and the broader agriculture industry in Alberta. The development of innovative products such as the Revolving Loan Program and Livestock Price Insurance programs provide Alberta producers and secondary processors enhanced opportunities to manage and grow their businesses successfully.

AFSC's lending programs supported the development and expansion of agriculture, agribusiness, value-added enterprises and commercial operations that are essential to Alberta's prosperous and growing rural economy. In the 2011-12 fiscal year, AFSC had a total loan portfolio of $1.6 billion and over 10,000 lending clients. Over the past seven years, lending activity has generated almost $4 billion in economic activity across the province and AFSC is now approaching $500 million in annual lending.

AFSC demonstrated adaptability and compassion with an innovative approach to commercial lending following the tragedy that befell Slave Lake in 2011. Recognizing the immediate capital needs for new and existing businesses within the Slave Lake wildfire evacuation zone, AFSC partnered with the residents of Slave Lake to provide affected business owners with interest and payment-free loans for 24 months. At fiscal year-end (March 31, 2012), over $66 million in new loans had been approved to residents eager to rebuild their community.

Refinements to existing AFSC programs include AgriInsurance enhancements for 2012 that provide more extensive coverage for unseeded acres due to excessive moisture. AFSC's suite of business risk management products continue to make an impact for Alberta producers. During 2011-12 AFSC provided a record $4.5 billion in coverage, generating $657 million in premiums, and over the past five years, AgriStability and AgriRecovery have provided $943 million in compensation for losses.

This past year AFSC's Board of Directors welcomed two new Directors, Pat James, a producer from Olds with broad rural and local governance experience, and Ian Reynolds, a lawyer with public and private sector experience in one of Edmonton's leading firms. We were also fortunate to welcome back Carol Haley, who brings extensive past experience as an MLA and more recently with the Government of Alberta.

For the past several years AFSC has started many new initiatives to create a performance culture and become and remain a partner, provider and employer of choice. It is our intention to continue down that path and work to make further enhancements that will benefit our clients and ensure that AFSC remains a leader. At AFSC our Board, our management and our staff are passionate about agriculture and providing value to our clients.

H. D. (Harry) Haney
Chairman

AFSC delivers strategic financial services and partners with agricultural producers, agribusiness and commercial entities on behalf of the Alberta government to support and promote business development. AFSC's programs and products directly assist the Alberta government with seizing opportunities furthering agricultural development, and improving the quality of life in rural Alberta. AFSC strives to address existing market gaps through its products and services, as the products AFSC delivers are not readily or consistently available to the agriculture industry and agribusiness from conventional sources.

AFSC's lending programs support the development and expansion of agriculture, agribusiness, value-added enterprises and commercial operations, particularly in rural Alberta. Clients can access up to $5 million in debt capital through flexible and accessible programs to grow and sustain their businesses or to manage cash flows.

AFSC's experience and expertise can help Alberta compete on the world stage and become preferred suppliers to growing markets around the globe. Alberta must look beyond the United States to diversify export markets for Alberta's agricultural products; the expansion of incomes in Asia provides an opportunity for the diversification of markets for agricultural products. AFSC has business expertise to support Alberta's trade office in the region to facilitate and participate in market opportunities for Alberta producers and products.

AFSC has a long history of delivering programs mandated under statute and intergovernmental agreements that assist producers in managing risk, stabilizing incomes and disaster recovery. AFSC offers some of the most comprehensive insurance programs in Canada for both crops and livestock, positioning Alberta as a leader in business risk management programming. AFSC assists in the development and delivery of agriculture insurance and income stabilization programming on behalf of the Alberta and Canadian governments.

Lending - Loans and Guarantees

Since 1972, AFSC has been supporting primary producers and commercial and agribusiness in Alberta through lending products that address market gaps. AFSC has partnered with producers and businesses to support rural development and a profitable agriculture sector in Alberta.

AFSC offers loans to farms, agribusinesses, value added enterprises and commercial enterprises, as well as loan guarantees and capital sourcing services. Flexible terms and long-term fixed interest rates make our products accessible, provide stability for farm and business planning and help operators manage future cash flows in an industry where income and expenses can be volatile. AFSC's loans are generally secured by land, buildings and equipment, with various repayment schedules offered. AFSC's clients can prepay or pay out any loan without incurring a penalty.

AFSC lending products, particularly the Alberta Farm Loan Program, were developed to assist producers in obtaining required capital to start, develop and grow their operations. Like any business, agricultural producers face many challenges to making a profit, and AFSC remains committed to supporting our clients' success; our lending products are developed with that objective.

AFSC offers loans up to $5 million per borrower or connected borrower to assist a wide range of producers and businesses. AFSC's clients can choose the right financial option to suit their needs:

- **Alberta Farm Loan Program** assists with land and equipment purchases, refinancing existing debt or working capital needs. The Beginning Farmer Incentive helps new farmers get started by reducing borrowing costs by an additional 1.5 percent for the first five years of the loan.
- **Revolving Loan Program** was launched in March 2012, in response to client demand. The program meets the needs of Alberta's primary producers by enabling borrowing through a self-selecting reusable loan facility that lessens the need for repeated transactions and provides faster service. The program offers fixed rate loans for terms up to three years; loans are renewable upon expiry.
- **Value-Added and Agribusiness Program** provides both service firms supporting agriculture and agriculture-focused value-added enterprises with fixed-rate loans to acquire land or equipment, to refinance debt, or to provide working capital.
- **Commercial Loan Program** assists both rural and urban commercial businesses in growing their operations by providing fixed rate loans.
- **Specific Loan Guarantee Program** provides guarantees in support of operating loans to other lenders to facilitate the client's access to working capital.

By setting leveraging targets, AFSC maximizes the economic impact of the loans provided. The nearly $500 million in loans AFSC delivered across Alberta in 2011-2012 were leveraged to generate $790 million in economic activity.

In the past fiscal year, AFSC had a total outstanding loan portfolio of $1.6 billion and over 10,000 clients.

Since 2005, AFSC's lending activity has generated almost $4 billion in economic activity across the province.

Over the past five fiscal years, AFSC's annual lending approvals have demonstrated consistent growth, growing from $280 million in approved loans in 2008 to $490 million in 2012.

Following the devastating wildfires in Slave Lake in May 2011, AFSC initiated and administered direct support to any eligible enterprises impacted by the disaster under the existing Value-Added and Agribusiness Program and the Commercial Loan Programs. This Disaster Assistance Benefit provided eligible enterprises with unique debt capital that was interest free and payment free for the initial 24 months. As of March 31, 2012, AFSC had approved 92 applications for $66 million with another 75 applications pending for $45 million.

Repayment options offer clients a choice of various fixed and renewable rates and terms, for a maximum period of 20 years. The interest rate can be fixed over the entire life of the loan, providing long-term or renewable short-term stability and the ability to manage cash flow risk. AFSC lending programs are funded by interest and fee revenue generated from borrowers, and through contributions received from the Government of Alberta (GOA).

Growing Forward

Growing Forward is the five-year multilateral agreement between the Federal, Provincial, and Territorial Governments that sets out the direction for the continued development of the agriculture industry and the management of agriculture risk in Canada. Specifically, Growing Forward provides for the following national programs: AgriInsurance, AgriStability, AgriInvest, AgriRecovery and the Wildlife Damage Compensation Program.

In Alberta, AFSC is responsible for the portions of the multilateral Growing Forward agreement related to the management of agriculture risk while Alberta Agriculture and Rural Development is responsible for the bilateral portions related to the development of the agriculture industry. The current agreement expires March 31, 2013 and governments are negotiating a new agreement by September 2012 for introduction April 1, 2013.

Insurance

AFSC has developed and is proud to offer some of the most comprehensive insurance programs in the country for both crops and livestock, positioning Alberta as a leader in agriculture insurance delivery. AFSC's insurance products provide coverage for annual and perennial crops, insuring against losses caused by designated natural perils.

Many of AFSC's insurance programs are governed through federal and provincial Acts and multilateral agreements, while others are developed in Alberta and delivered to Albertans. As a result, each program has a specific premium cost share formula between participating producers and the federal and provincial governments. In accordance with the federal-provincial-territorial Growing Forward Framework Agreement, premiums are to be shared among producers, the Government of Canada and the Government of Alberta in the ratio of 40:36:24 respectively.

FACT:

Producers using AFSC crop insurance are insured against many natural perils, including drought, frosts, floods, hail, snow, winds, excessive moisture, insect infestation and more.

However, because some endorsements and premiums for AgriInsurance programs are either fully funded by producers or jointly funded by the Governments of Alberta and producers, the actual share of premiums for producers, the Government of Canada and the Government of Alberta can vary. For 2011/12 the ratio was 39:29:32 respectively.

Production-Based Insurance Products

Most crops grown in Alberta are eligible for insurance, including grains and oilseeds, sugar beets, fresh vegetables, pulse crops, specialty crops, honey, hay, pasture (native and improved) and crops grown for silage, swath-grazing and greenfeed. Producers select coverage levels of 50, 60, 70, or 80 percent (90 for sugar beets) of their capacity to produce, and premium rates vary according to the coverage level selected. Yield-related coverage reflects historical production. Producers can also choose to purchase the hail endorsement (HE) and spring price endorsement (SPE) along with insurance for most crops.

Claims are triggered when production falls below the crop's insured coverage and losses are caused by insured natural perils such as: drought, snow, excess moisture, insect infestations, fire caused by lightning, hail, wind, plant disease, frost and wildlife damage. Production-based insurance products include Crop Insurance, Processing Vegetable Insurance, Honey Insurance, Hay Insurance and Export Timothy Hay Insurance.

Area-Based Insurance Products

Area-based insurance products such as Silage Greenfeed, Corn Heat Unit (CHU), Satellite yield (SAT) Moisture Deficiency Insurance (MDI) for pastures, and the Moisture Deficiency Endorsement (MDE) for hay offer limited peril coverage. Losses are triggered by events in the area, such as less than normal rainfall, spring soil moisture, or heat. Area-based insurance may not directly reflect conditions experienced by the insured producer.

The following benefits are available to AFSC clients through insurance products:

- **Variable Price Benefit (VPB)** pays when there is a production loss and the fall market price increases by 10 percent or more compared to the spring insurance price. For indemnity calculations the fall market price is subject to a maximum increase of 50 percent above the spring insurance price.
- **Reseeding Benefit** pays for reseeded acres if approved by AFSC prior to reseeding.
- **Unseeded Acreage Benefit** may apply when land is too wet to seed in the spring.
- **Unharvested Acreage Benefit** may apply if the producer is unable to harvest crops due to the early onset of winter.

In 2011, AFSC Annual Crop Insurance products insured over 13 million acres in Alberta, 73 percent of total seeded acres.

During the same year, AFSC's Perennial Crop Insurance products insured over 6 million acres in Alberta, 23 percent of hay and pasture acres.

Endorsements

AFSC offers additional endorsements to its clients that are funded solely by producers and the Government of Alberta and are not cost-shared with the federal government. The endorsements respond to specific needs identified in many cases by producers themselves, to improve Alberta's risk management programs, resulting in the most comprehensive insurance coverage in Canada.

The following endorsements are available for purchase with most insurance products, and more than one endorsement may apply to a single product.

- **Spring Price Endorsement (SPE)** is price protection that triggers when an eligible commodity's fall market price decreases by more than 10 percent below the spring insurance price. SPE premiums are cost-shared between governments and producers, 50:50. SPE is insurance designed to help producers manage "within-year" price risk, and SPE pays on actual crop production up to the selected coverage level. For indemnity calculations the fall market price is capped at a maximum decrease of 50 percent below the spring insurance price.
- **Hail Endorsement (HE)** provides spot-loss coverage for crop damage caused by hail. Coverage is limited to that provided under the insurance product, and producers only pay 33-37 percent of the straight hail premium rate, depending on the type of crop.
- **Moisture Deficiency Endorsement (MDE)** is only available with Hay Insurance. Claims trigger when soil moisture and/or rainfall at a weather station(s) selected by the producer decreases below 80 percent of the long-term normal.

FACT:

From April 1, 2011 to March 31, 2012 AFSC insured over 12,000 farms for annual crops that generated $399 million in premiums and covered $3.8 billion in risk.

Hail Insurance

Straight Hail Insurance provides producers with spot-loss crop protection from hail damage or accidental fire, and is available at any time once crops emerge. (Coverage takes effect the next day at noon after a policy is written). AFSC's clients have the option to receive a two percent premium discount when Straight Hail Insurance is purchased from AFSC online. Producers who auto-elect prior to April 30 are eligible to receive the same two percent premium discount.

During the 2011 crop year AFSC insured 5.1 million acres against hail damage, with straight hail indemnities paid of $25.5 million.

Producers, tenants and landlords with a crop-share lease agreement are eligible to participate but the combined dollar coverage of all insured parties cannot exceed a crop's maximum dollar coverage per acre limit. Losses are paid based on the percentage of hail damage to a crop. This AFSC hail insurance program is self-sustaining and fully funded by producer premiums.

Livestock Price Insurance Programs (LPIP)

AFSC's Livestock Price Insurance Programs reflect an industry-driven initiative designed to provide Alberta cattle and hog producers with an easy to use, made-in-Alberta risk management tool. These programs offer simple, bankable, market-driven and potentially more affordable ways to manage market price risk without limiting any upside price potential. The products were developed through funding from the Alberta Livestock and Meat Agency (ALMA) with premiums paid by producers and administration costs paid by the GOA.

Two different made-in-Alberta programs are currently available to Alberta producers: Cattle Price Insurance Program (CPIP) and Hog Price Insurance Program (HPIP). These livestock price insurance products are tailored to meet the needs of the beef and hog production chains and to equip producers with a tool to help manage risks faced daily in Canadian markets. Specifically, the following products are available:

- **CPIP-Fed:** Designed to insure cattle being finished in Alberta. Settlement is based on the average Alberta slaughter price. Coverage is available year-round with policy lengths between 12 to 36 weeks into the future.
- **CPIP-Feeder:** Tailored to insure feeder cattle (backgrounders) weighing 750-950 pounds at time of sale. Settlement is based on the average price of an 850 pound steer in Alberta, available for purchase year-round with policy lengths from 12 to 36 weeks into the future.
- **CPIP-Calf:** Covers the price risk a cow-calf producer faces when selling 550-650 pound calves in the fall. Policy purchases are available in the spring for fall settlement which is based on the average price of a 550-650 pound steer calf in Alberta.

During 2011-2012, LPIP producers purchased coverage on 26,000 fed cattle, 19,000 feeders, 3,300 calves, and 2,300 hogs.

LPIP provided $63 million in coverage, generating $1.2 million in premiums and paid indemnities to date to March 31, 2012 of $34,000.

- **HPIP:** Year-round price protection for weaner and market hogs. Settlement is derived from an Alberta cash market-based formula. Policy lengths are between two and 10 months.

AgriStability (Agriculture Income Stabilization)

AgriStability provides participating producers compensation should they experience a significant decline in their margins due to factors beyond their control. The AgriStability program is designed to provide support for farmers against a decline in farm margin for their whole farming operation. Margin declines result from circumstances such as production shortfalls, falling commodity prices or rising input costs.

AgriStability is funded in accordance with the Growing Forward Agreement, with the Government of Canada covering 60 percent of AgriStability claim payments and administrative costs, while the GOA funds the remaining 40 percent. The GOA offers, and fully funds, an enhancement for Alberta producers that raises the maximum Agristability payment to $5 million, $2 million more than the national maximum of $3 million.

Compensation is provided for eligible participants when their program margin in a fiscal year declines more than 15 percent from their Reference Margin. The Reference Margin is an average of the difference between allowable income and expenses, subject to Program Guideline adjustments, for three of the past five years immediately prior to the current Program Year (after excluding the highest and the lowest margin years).

As of March 31, 2012: 22,244 2010 AgriStability claims were processed with payments totaling $99 million. 1,594 2010 claims were being processed. Producers participating in the 2010 AgriStability program to manage their risk represent 73 percent of Alberta's farm cash receipts.

Under the program, allowable income includes proceeds from agricultural commodity sales and proceeds from production insurance. Allowable expenses include commodity purchases along with direct input costs incurred in the farming operation. Both the Reference Margins and the current Program Year Margin (outside the Reference Period) are adjusted for changes in inventories along with changes in accounts payable and receivable and purchased inputs. Adjustments are intended to establish a reasonable comparison between the reference period and the current program year.

Should farming operations undergo a structural change, such as a change in ownership, size of operation or farming practices, the participant's production margins in the reference period will be adjusted to make the Reference Margins comparable to the current Program Year margin.

In order to participate, eligible applicants must report farming income (or loss) in Canada for income tax purposes and have a minimum of six months continuous farming activity along with the completion of a production cycle. Enrolment is required by April 30 of the Program Year and participants must remit an Enrolment Fee.

Participants who experience a margin decline during a production year can apply for an interim advance within 90 days of their fiscal year end and receive 50 percent of their estimated benefit. A final application is required to be filed for that year and any overpayment must be repaid.

AgriInvest

AgriInvest is a matching-deposit based program for producers facing margin declines that is federally administered. AFSC assists the federal government as necessary. AgriInvest savings accounts provide coverage for small margin declines and replace coverage for margin losses of up to 15 percent. Funds, including government contribution, can be withdrawn at any time by participants with no pre-existing withdrawal requirements The program is simple, responsive, predictable, and bankable, allowing participants to easily predict government contributions to producer-managed accounts each year. AgriInvest accounts, opened at a participating financial institution of a producers' choice, build as participants make deposits based on a percentage of Allowable Net Sales and as matching contributions are received from federal, provincial, and territorial governments. Eligible producers have a deadline of 90 days from the date of notification to make a deposit to their AgriInvest Account.

The matching government contribution and administration costs are shared between the Government of Canada and Alberta, 60:40.

Note: The attached financial statements reflect only the Government of Alberta share of contribution and claim payments.

AgriRecovery

AgriRecovery is part of the Growing Forward framework, guiding federal and provincial governments in determining how and where to provide timely assistance to producers impacted by disasters when existing programs may not provide coverage. AgriRecovery is funded 60 percent by the Government of Canada and 40 percent by the Government of Alberta.

Once a disaster has been declared, the federal and provincial governments assess the situation, including the amount of funding available from existing programs, and develop an appropriate response. Programs vary depending on the individual disaster. As the delivery agent for AgriRecovery in Alberta, AFSC also works with both federal and provincial Governments and is necessarily involved in the disaster assessment and any initiative development phases. The Government of Alberta allocates no budget dollars to the AgriRecovery framework; disaster funding requires Treasury Board and Cabinet approval

for each response.

Wildlife Damage Compensation Program

Wherever there is agricultural production there is a potential for conflict with wildlife. Compensation for damage to crops caused by wildlife is available to producers through AFSC. The Wildlife Damage Compensation Program is available nationally, and is cost shared by the Government of Canada and by Alberta at a 60:40 ratio, whereby a maximum of 80 percent of the losses are compensated. The remaining 20 percent of losses are covered exclusively by the GOA.

Provincial and federal governments, through AFSC's Wildlife Damage Compensation program, compensate producers for spot-loss damage to eligible unharvested crops. The Wildlife Damage Compensation Program (WDCP) includes the following initiatives that provide compensation when crops are damaged by protected species of wildlife and waterfowl:

- Spot-loss coverage for crops damaged by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops and hay. An inspection fee of $25 per section of land (640 acres or portion thereof) is required.
- Excreta Market Loss-Cleaning compensates for reduced market value or for cleaning grain due to wildlife excreta.
- Wildlife Damage to Stacked Hay and/or Silage/Haylage stored in pits and tubes.

As of March 31, 2012, $5.3 million has been paid to producers for crop damage caused by wildlife for the 2011 crop year.

FACT:

The first income stabilization program was established in 1995, when the federal-provincial governments announced the Farm Income Disaster Program (FIDP).

We are pleased to share management's discussion and analysis, which offers a detailed look at AFSC's 2011-12 operations in support of our industry stakeholders.

The statistical information contained in this section reflects actual transactions up to March 31, 2012. In some instances the information contained in this section could be different from figures used in the financial statements because the latter includes accounting adjustments such as accruals.

Alberta Agriculture Industry 2011-12

Annual Crop Conditions in Alberta

In general, crop growing conditions across Alberta were challenging though the final result was favorable. Seeding was slow to start in all regions due to the heavy winter snowfall, below average cool spring temperatures and sporadic rainfall. Cool temperatures continued through July delaying crop development 10 to 17 days from the norm. Warm weather in August and a longer than average growing season provided most crops with the opportunity to achieve maturity before the inevitable, fall killing frost. Ideal harvest conditions into early October allowed producers in most areas to harvest their crops with average to above average yields and good quality. Alberta harvest was completed by mid-November, approximately two to three weeks later than average for the province.

Perennial Crop Conditions in Alberta

Though spring soil moisture was good in most areas, early forage crop growth was slowed by the cool spring temperatures. Precipitation in late June through mid July was extremely beneficial to pastures but caused great difficulty in the harvest of first cut hay resulting in below average quality. Forage pasture growth was rated high throughout the season, closing the season (at October 20) with 19.4 percent of the province rated poor, 34.4 percent fair, 34.1 percent good and 12.1 percent rated excellent (from a high of 24 percent excellent on September 8, 2011). The good weather in August and September provided two-cut hay producers with the opportunity to harvest their second cut production with excellent quality. Overall, hay yields were well above average and quality was fair to good.

Livestock

Alberta's livestock industry contributes significantly to the Alberta economy. In Alberta, (for the calendar year January to December) farm cash receipts from the sales of cattle and calves combined equaled $3.2 billion. Alberta hog farm cash receipts of $412 million accounted for the third largest contributor to the livestock cash receipts, behind cattle and calves and dairy products.

Alberta continues to dramatically lead the rest of the country in total herd size, as this province accounts for 40 percent of the total Canadian cattle inventories as of January 2012 (at 5.0 million head). In 2012, while the national cow herd saw its first year-over-year average percentage increase in numbers of cattle in seven years (0.5 percent), Alberta saw an increase of 0.9 percent.

Alberta saw the highest cattle prices since 2001 which indicates strengthening in the livestock industry. The market situation for feeder cattle and calves has been steadily improving since 2010, with calves in 2011 worth up to $200 more than they were in 2010. Hog prices in Alberta were also seasonally high this year, giving producers the opportunity to lock in a substantial profit. This was a welcome change for many cattle and hog producers in the industry but put pressure on the margins of feedlots and packing plants throughout the province and beyond.

Demand for Capital

Farm lending volumes increased again in 2011 as a result of producers remaining optimistic in most agricultural sectors. Many producers continued to take advantage of the customized loan programs and flexible repayment options offered by AFSC. Strong agricultural commodity prices, along with increased oilfield activity, appeared to ignite lending activity as producers continued to feel confident about the Alberta economy. AFSC's Alberta Farm Loan program continued to provide greater access to capital for Alberta producers wanting to start, develop or grow their business.

Assistance for Alberta's Agriculture Sector in 2011-12

A broad range of products and services provided by AFSC supported Alberta producers who were dealing with the varied conditions in 2011-12.

FACT:

AFSC provided new lending to assist 1,974 Alberta clients in 2011-2012, the vast majority rural businesses.

Calendar-year 2011 program payments in Alberta fell 16.6 percent to $681.3 million, largely due to lower payments under Crop and Hail insurance and AgriRecovery. Moderating the decline were a gain in crop market receipts and higher livestock prices, more than offsetting lower program payments to producers. Farm Cash Receipts rose 16.2 percent to a record $10.5 billion, the third highest in Canada, up from $9 billion in 2010.

AgriStability

AgriStability claims are normally processed on a one year lag basis. In the 2010 production year, many southern Alberta municipalities experienced excessively moist conditions on their crop and pasture acres with commodity prices remaining high. Input costs have remained relatively stable.

Benefits were provided to approximately 16 percent of participants for the 2010 claim year as of March 31, 2012, with 29 percent of participants receiving benefits for 2009 one year earlier. Total 2010 claim payments for the 23,838 participants are forecasted to be $115 million. Early forecasts for 2011 claim payments are estimated at $100 million, in keeping with similar above average crop yields, increasing commodity prices, and higher livestock prices and feed costs as realized in 2010.

While program participation is declining, the average support level for producers has increased from $107,237 in 2009 to $118,979 in 2010. This is an indication that farm cash receipts have recovered and that many farms are consolidating to become larger. Some producers have experienced a decline in reference margins and have become ineligible for support due to successive loss years.

Income Stabilization – AgriStability (as at March 31, 2012) (Including Alberta Initiatives)

Claim Year	Number of Claims Processed	Support Level $,000	Average Support Level $	Number of Claims with Payment	Payment $,000	Average Total Payment $
2010	22,244	2,237,000	118,979	3,659	98,890	27,027
2009	26,751	2,483,000	107,237	7,783	218,904	28,126

** 22,244 processed of 23,838 total 2010 AgriStability claims at March 31, 2012.*

AgriRecovery

The Canada-Alberta Excess Moisture Initiative (CAEMI) II was announced on August 4, 2011. Benefits of $30/acre were provided to Alberta producers dealing with the financial impact of back-to-back years of lost production and extraordinary costs as a result of extended periods of excess moisture in 2011. Acres that were too wet to seed or seeded acres lost due to flooding were covered and were predominantly located in the southern municipalities of Alberta.

Canada-Alberta Excess Moisture Initiative II (as at March 31, 2012)			
2011 CAEMI II	Year	Number of Claims with Payment	Payment $,000
	CAEMI II Total	5,635	36,934

The Canada-Alberta Feed Transportation Assistance Initiative (CAFTAI) was finalized during 2011 and provided a rebate (based on $0.22/tonne/mile or $.10/head/mile) for excess transportation costs incurred to bring feed to the farm or to take breeding livestock from the farm to feed in select northern municipalities affected by drought. This program paid over $2.9 million in support to producers.

2010 Canada-Alberta Feed Transportation Assistance Initiative (as at March 31, 2012)			
CAFTAI	Year	Number of Claims with Payment	Payment $,000
	2010 CAFTAI Total	393	2,965

AgriInvest

For the 2010 program year, 29,699 producers in Alberta with a combined Allowable Net Sales (ANS) of $4.5 billion participated in AgriInvest of which 22,085 were eligible to deposit one and a half percent of their ANS, subject to a maximum of $22,500 per producer to be matched by the Governments of Canada and Alberta. 19,948 producers made their 2010 program year AgriInvest deposits at a financial institution by the deadline.

In Alberta, for the 2009 program year, $68.7 million was actually deposited. For the 2010 program year, of the $67.2 million potential deposits, only $47.8 million has been deposited to date. Although approximately 29 percent of funds are not yet deposited, many participants are still within deadlines to contribute.

Producers can withdraw funds at any time for any reason including margin declines, or invest in certain activities to improve farm income. Since the inception of AgriInvest in 2007, Alberta producers have withdrawn $189 million in government funds. At March 31, 2012, 34,027 producers had $316 million on deposit in their AgriInvest accounts. Alberta cost-shares matching government contributions to producer accounts at a 40 percent level, with the financial statements herein reflecting only the GOA share of the contribution and administration.

FACT:

AFSC had over 18,000 insurance contracts on 20,000,000 acres.

AgriInvest					
Year	**Number of Eligible Producers**	**Total Value of Maximum Match-able Deposits $,000**	**Number of producers depositing**	**Total Value of Contributions by Producer $,000**	**Total Value of Contributions by Government $,000**
2010	22,085	67,250	19,948	47,776	47,776
2009	24,231	82,200	23,075	68,713	68,713

AgriInsurance

Annual Crops

Insurance and endorsements are made available to Alberta's producers to protect them from financial losses beyond their control. The cool, wet conditions in the spring and early summer of 2011 resulted in payments in excess of $11.7 million on 342,817 unseeded acres. Although crops were delayed with the cool weather early in the growing season, an extended warm harvest period allowed these crops to mature, resulting in lower than expected yield and grade losses. Prices again increased significantly from spring to fall in 2011 triggering the variable price benefit on many crops including all types of wheat and barley. Losses for these crops were paid at the higher fall price.

AgriInsurance Products for Annual crops include: Crop, Silage Greenfeed, Corn Heat Unit, Processing Vegetables, Honey and Bee Overwintering Insurance.

AgriInsurance for Annual Crops							
Year	**Contracts**	**Acres ,000**	**Premium $,000**	**Risk $,000**	**Contracts with Indemnity**	**Indemnity $,000**	**Loss / Premium %**
2011	12,782	13,541	398,835	3,791,920	5,430	119,785	30.0
2010	13,296	13,292	306,251	3,128,183	5,676	208,991	68.2

Perennial Crops

Alberta's forage producers insured slightly less hay and pasture acres in 2011 than they did in 2010. The wet conditions early in the growing season benefited hay and pasture crops resulting in positive loss experience for the Perennial Crops Program in 2011. Those producers who did suffer a loss also benefited from the variable price benefit in 2011.

Perennial insurance programs include Hay insurance and the Moisture Deficiency Endorsement, Export Timothy Hay, and Satellite Yield and Moisture Deficiency Insurance for pasture.

AgriInsurance for Perennnial Crops							
Year	**Contracts**	**Acres ,000**	**Premium $,000**	**Risk $,000**	**Contracts with Indemnity**	**Indemnity $,000**	**Loss / Premium %**
2011	5,937	6,424	15,908	95,901	1,455	6,351	39.9
2010	7,258	7,993	29,928	174,090	828	6,539	21.8

Spring Price Endorsement (SPE)

Although spring prices were high in 2011 relative to historical prices, producers were optimistic that prices would not drop significantly from spring to fall and most chose not to purchase the spring price endorsement. Prices did remain strong through the fall and as a result the spring endorsement was not triggered on any crops.

Spring Price Endorsement							
Year	**Contracts**	**Acres ,000**	**Premium $,000**	**Risk $,000**	**Contracts with Indemnity**	**Indemnity $,000**	**Loss / Premium %**
2011	1,711	1,128	20,071	316,826	0	0	0
2010	4,217	4,465	65,615	1,098,911	229	5,055	7.7

Hail Endorsement and Straight Hail Insurance

Acres insured under both the hail endorsement and the straight hail program in 2011 were very close to 2010 levels. In 2011 Alberta experienced two large hail storms. The first storm occured on July 7 in an area stretching from Sundre to Red Deer. The second major storm on July 18 covered an area from Millet east to the Saskatchewan border. In addition to these large events, many small storms occurred from June to early October throughout the province. The number of total payable hail claims increased slightly from 4860 in 2010 to 4969 in 2011.

Hail Endorsement - Subsidized premium and linked with AgriInsurance programs							
Year	**Contracts**	**Acres ,000**	**Premium $,000**	**Risk $,000**	**Contracts with Indemnity**	**Indemnity $,000**	**Loss / Premium %**
2011	10,894	11,820	178,061	3,395,149	3,485	179,621	100.9
2010	11,269	11,620	135,047	2,796,594	3,261	137,293	101.7

Straight Hail Insurance							
Year	Contracts	Acres ,000	Premium $,000	Risk $,000	Contracts with Indemnity	Indemnity $,000	Loss / Premium %
2011	5,617	5,126	43,561	577,273	1,484	25,512	58.6
2010	5,932	5,239	41,686	553,917	1,599	27,370	65.7

Livestock Price Insurance Programs
(Self Sustainable and fully-funded by producer premiums)
Summer 2011 marked a historical moment for AFSC: on July 19, 2011 the Corporation successfully launched the Hog Price Insurance Program (HPIP) for Alberta hog producers. HPIP was important for the hog industry as it has experienced high market volatility over the past many years. HPIP is tailored to the Alberta producer as it is a customized program to reflect the unique requirements of the hog market and was designed in close consultation with industry, including Alberta Pork and the Western Hog Exchange. Paramount to the successful development of HPIP was the Alberta Livestock and Meat Agency (ALMA). This program is available year-round for all hog producers, including farrow to wean, iso-wean, and finishing operations.

In September 2011, AFSC was pleased to accept the Premier's Silver Award of Excellence awarded to the Cattle Price Insurance Program for fed cattle.

Education has been a high priority for AFSC and for staff working directly with the Livestock Price Insurance suite of programs who implemented a marketing plan intended to increase awareness and help producers understand how the programs can be used as a tool to manage risk. The mandate of AFSC's three new Field Analysts has been to educate producers and staff across the province about the LPIP programs. Increased volatility of the futures and cash markets associated with each of the Livestock Price Insurance Products has created increased inquiries, interest, and purchases in the program.

FACT:

AFSC's external client survey reported that an average 91.6% of our clients were satisfied with service by AFSC staff received in 2011-2012.

Livestock Price Insurance Programs - For Policies Sold in 2011-12, 2010-11, 2009-10, at March 31, 2012					
LPIP 2011-12	**Policies**	**Premium $,000**	**Risk $,000**	**Indemnity $,000**	**Loss / Premium %**
CPIP Fed	102	753	38,496	32	4 2
CPIP Feeder	117	358	21,006	2	0.6
CPIP Calf	33	51	2,768	0	0
HPIP *1	6	10	323	0	0
Totals	258	1,172	62,593	34	2.9
LPIP 2010-11	**Policies**	**Premium $,000**	**Risk $,000**	**Indemnity $,000**	**Loss / Premium %**
CPIP Fed	185	1,235	62,800	665	53.9
CPIP Feeder	5	11	382	-	0
CPIP Calf	2	3	83	-	0
Totals	192	1,249	63,265	665	53.3
LPIP 2009-10	**Policies**	**Premium $,000**	**Risk $,000**	**Indemnity $,000**	**Loss / Premium %**
CPIP-Fed	505	2,502	147,669	93	3.7

**1 had only eight months of sales time within this fiscal year*

Wildlife/Waterfowl Damage Compensation

Total payments under the wildlife damage compensation program decreased slightly in 2011, while the number of claims was less than half of claims in 2010. This was generally due to the more complete late 2011 harvest, compared with late seeding in 2010-11 that delayed harvest and left many crops standing in fall 2010. The area most affected in 2011 was the north Peace, primarily the area north of Spirit River. While claim numbers were down, the amount paid remained high because of higher yields in areas with damage and the higher crop prices in 2011.

(Data Includes claims for Wildlife Excreta / Market Loss)

Wildlife losses - 100% government funded (no premium)						
Year	**Wildlife**		**Waterfowl**		**Total**	
	# of Claims	**Indemnity $,000**	**# of Claims**	**Indemnity $,000**	**# of Claims**	**Indemnity $,000**
2011	381	4,299	123	982	504	5,281
2010	716	4,131	347	3,045	1,063	7,176

Lending

AFSC had another great year in its lending division. New direct loans approved totaled more than $490 million for the year ending March 31, 2012 with assistance to more than 1,970 businesses in Alberta. This lending facilitated an investment of over $784 million in the province's agriculture, value added and rural economies. The former record of $407 million in loans approved in 2010-11 was surpassed this year.

In our continued commitment to provide access to capital for Albertans and recognizing the unique needs of our borrowers, AFSC maintained its strong level of lending to primary producers, agri-industry and value-added sectors.

In May, 2011 the Government of Alberta announced a Disaster Assistance Benefit available to Slave Lake and area businesses that were affected by the wildfires. This benefit is available through the existing Commercial and Value-Added and Agribusiness loan programs provided by AFSC.

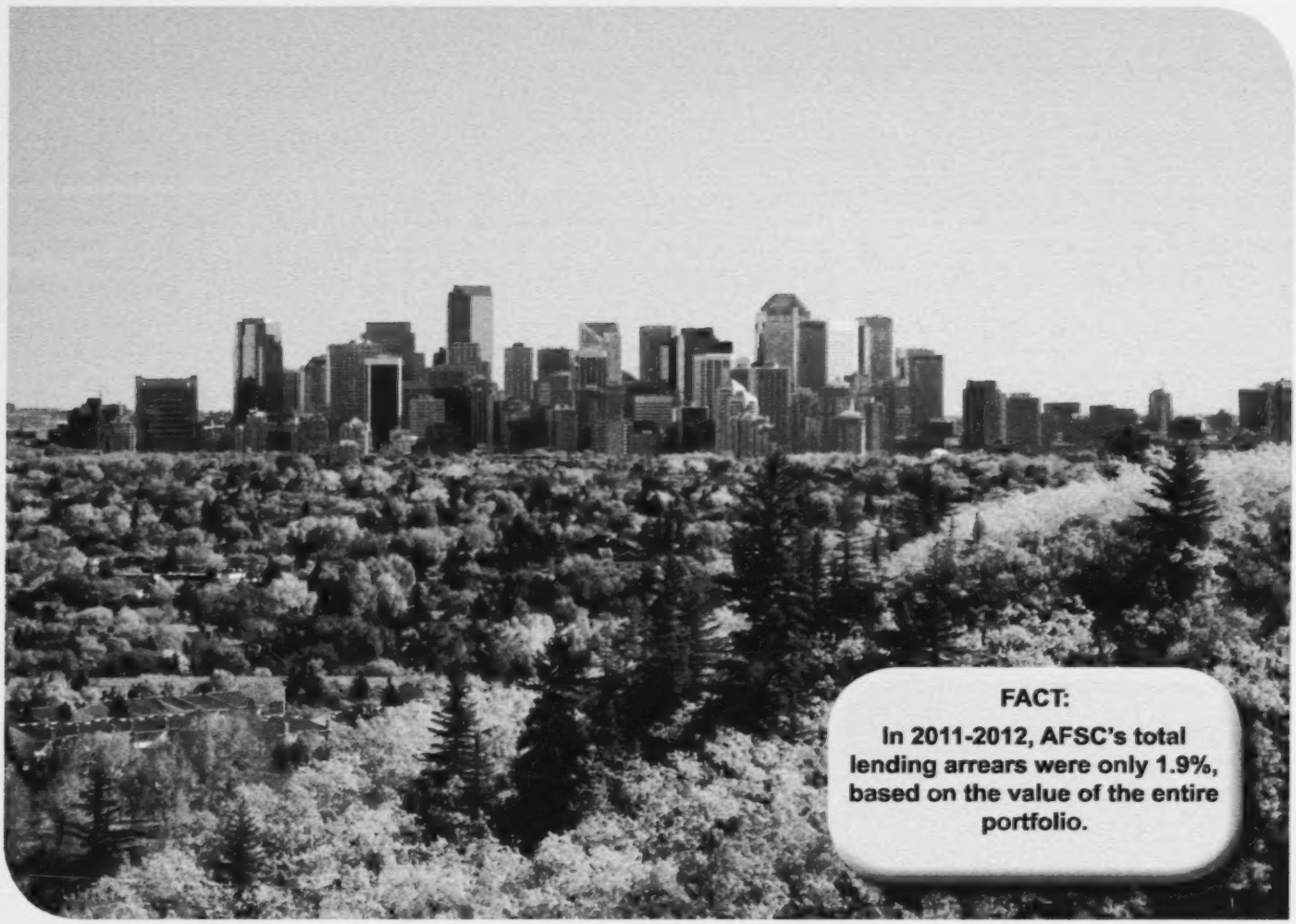
The total amount of investment leveraged by loans shows AFSC's contribution and commitment to growth in Alberta and its economy. For the fiscal year ending March 31, 2012, AFSC's lending contribution resulted in leveraging over $784 million total project dollars.

In 2011-12, AFSC's lending portfolio reached over $1.6 billion as compared to $1.4 billion for the previous year. AFSC's loan portfolio continues to have comparatively low levels of arrears and allowances for doubtful accounts.

AFSC authorized loans under its various programs that leveraged into $497 million to the Agri-Industry (Farm Business and Agri-Business enterprises) and $678 million for rural based ventures. These results continue to have a positive impact on the Alberta economy and further solidify AFSC loan programs, working for Albertans.

(2011-12 lending data as at March 31, 2012; 2010-11 lending data at March 31, 2011).

Direct Loans	Approvals 2011-12			Approvals 2010 - 11		
	No.	Lending $,000	Project Outlay $,000	No.	Lending $,000	Project Outlay $,000
Farm Loans	1,593	301,250	352,308	1,397	282,889	336,258
Commercial Loans	267	132,449	229,606	178	70,795	173,306
VAAP Loans	114	56,314	202,334	82	53,604	220,509
Total Direct Loans	**1,974**	**490,013**	**784,248**	**1,657**	**407,288**	**730,073**



Community Investment

With more than 50 offices located across Alberta, AFSC has a broad reach across the province. It is important to staff that work and live in these communities to have their employer, AFSC, invest in the organizations and events that are vital to those same communities.

AFSC's support reaches much further than the communities where we have staff. Through contributions to community projects, organizations and events, AFSC supports hundreds of events each year. In 2011-2012, local and corporate community investment initiatives were directed at organizations such as the Chamber of Commerce, Alberta 4-H, the Rotary Club, the Lions Club, the Legion, agricultural societies, food banks, fire fighters, seniors' organizations and schools.

The year also saw AFSC supporting several major trade shows with a newly designed booth, staff and in some instances, expert speakers. These included shows such as the Peace Country Classic, Northlands Farm and Ranch Show, Lloydminster's Cattleman's Corral, the Banff Pork Seminar, Agri-Trade and Ag Expo. Support was also given to numerous agricultural conferences, agriculture tours and seminars, farm safety days, community suppers, farmer appreciation days, and local community and educational events including awards and scholarships, to name a few.

The Canadian Foodgrains bank is another important organization supported by AFSC. The Canadian Foodgrains Bank provides a practical way for Canadian farmers to share their harvest with the less fortunate. This past year, AFSC sponsored over 20 locations in Alberta which totaled more than 3000 acres. AFSC supported these efforts by providing Straight Hail Insurance free of charge on crops donated by partnering communities in Alberta.

Through the Corporation's community investment program, AFSC plays a role in the growth and sustainability of rural Alberta.

Customer Service Commitment

AFSC continues to evolve its culture of performance ensuring that staff have the knowledge and tools they require to deliver excellent customer service. The Corporation's employees are the strength of the organization and the vital link to providing the expected high level of service to Alberta's producers and business owners. The 2011-2012 year was focused again on reviewing and improving existing processes as well as developing new tools to ensure that AFSC remains a great place to work.

As part of our commitment to customer service excellence, the Corporation is dedicated to ensuring all staff clearly understand what is expected of them, receive regular feedback and have a clear line of sight toward their chosen career path within the organization. This year saw the development of our Corporate Values document. These values set the tone for each staff member to bring to their careers at AFSC and many already feel they are living these values every day. By always keeping them top of mind, AFSC will create a better experience for its clients and continue to make AFSC a great place to work.

Employee training and development continues to be a priority. AFSC offers targeted training and leadership development opportunities to assist employees at all levels of the organization to achieve their career goals. As a result many employees have been with the organization over 20 years. The average years of service at AFSC are 10.45 years.

AFSC is proud to have been selected as a Top 100 Employer in Canada, 2012, Top Employer in Alberta and Top Employer for Canadians over 40, and will continue to build upon this success in order to meet and exceed our clients' expectations in the years ahead.

Goals and Corporate Performance

AFSC's 2011-12 Corporate Plan contained additional strategies and an action plan to achieve its goals.

Several AFSC Corporate strategies are client-focused, designed to better serve customers – the producers on the ground and related rural and agri-businesses clients. Accordingly, each year AFSC obtains feedback from its customers including satisfaction levels with all programs offered by AFSC by surveying its clients. Feedback from customers is utilized by executive management team for monitoring the effectiveness of its program delivery and internal management processes, and to identify areas for continuous improvement.

The AFSC client survey was conducted by an independent firm in February, 2012. A total of 1,612 AFSC clients participating in AgriStability, Lending and AgriInsurance were randomly contacted by telephone. Client anonymity is assured through the use of an independent survey firm and information obtained is protected by provisions in the Freedom of Information and Protection of Privacy Act.

FACT:

AFSC has ranked as one of Canada's Top 100 Employers for the past three years, and Top Employer in Alberta for the past four.

A key performance target was exceeded when an average 92 percent of all surveyed customers from AgriStability, Insurance and Lending indicated they were satisfied with service by AFSC, slightly increased from last year. This year, an average 89 percent of all surveyed clients indicated they would recommend AFSC's programs or services to their family or friends.

Claim turnaround times are a key performance measure, as they are important to AFSC clients, government and

other stakeholders. Given this importance, aggressive claim turnaround targets were set for both AgriInsurance and AgriStability.

AgriInsurance has two key performance targets. The first measure is the time between the claim being filed and completion of the on-farm inspection by the adjuster. Meeting the target is dependent upon the timing and number of claims filed by clients for crop losses.

The second measure is the time between the adjuster completing the on-farm inspection and the claim payment.

Similary, AgriStability has two key performance targets. The first measure is the time between receipt of complete information and the payment of claims received by August 15, and the second measure is the time between receipt of complete information and the payment of claims received after August 15. Meeting these targets depends upon the number of claims filed early versus claims received on or near the September 30 filing deadline and the number and magnitude of additional programs to administer.

In 2011, the actual turnaround time of 72 days for payment of 2010 AgriStability claims received before August 15 failed to meet the target of 30 days. Not meeting this target was due to processing AgriRecovery claims in 2011 alongside 6,553 AgriStability 2010 program year claims received by August 15, 2011. A backlog of 2009 AgriStability claims also existed due to processing AgriRecovery claims in 2010. For payment of remaining AgriStability 2010 claims (12,190) filed after August 15, the actual turnaround time of 43 days more than met the target of 65 days between receipt of complete information and payment.

For Hail Endorsement and Straight Hail claims, the 31 day turnaround time between claim filing to inspection failed to meet the target of 18 days. However, this year's time between claim inspection to claim payment of 13 days was under the target of 22 days.

For AgriInsurance postharvest claims, the actual turnaround time of 30 days between claim filing to inspection failed to meet the target of 20 days. However, the time between claim inspection to claim payment turnaround averaged 28 days, below the target of 30 days.

The ratio of direct loan dollars compared to project dollars leveraged exceeded the target of 1.55 achieving 1.60 times direct loan dollars this year based on $490 million in direct loans representing $786 million in total project dollars. This reflects AFSC's role as a catalyst or enabler for investment in Alberta. Lending arrears based on loan value were 1.9 percent for the entire portfolio, and lower than last year. This shows AFSC's loan portfolio continues to be well-managed relative to general economic conditions and other similar business entities. When surveyed by an independent firm this past year, 95 percent of lending customers agreed that AFSC financing helped establish or grow their business.

Much work occurred in delivering new system development and enhancements projects on time and on budget. Measuring the effectiveness of project management shows 86 percent were delivered on budget and 79 percent were delivered on time, surpassing the 75 percent target set for both.

Lastly AFSC conducted a staff survey via an independent firm, measuring a variety of factors. This showed 83 percent of employees were proud to work for AFSC and recommended AFSC to others, 85 percent were satisfied with the organization, 78 percent inspired to give their very best, and 76 percent preferred to stay with AFSC. The results indicate the majority of AFSC staff are inspired to do their best in the service of producers and when connecting with customers.

Enterprise Risk Management

The business activities of AFSC involve risk. To mitigate this risk, the Board of Directors sets goals and strategic priorities for the upcoming fiscal year, to which departmental tactical plans are clearly linked. Risk management is vital to protecting AFSC's customers, business interests and long-term viability. The Corporation has a comprehensive Enterprise Risk Management plan to mitigate identified risks to acceptable levels. The Board of Directors and its Committees have oversight responsibility for the Enterprise Risk Management plan and practices. The Executive Management Team is responsible for managing corporate-wide enterprise risk. Management at all levels is responsible for the ongoing monitoring of risks and implementing appropriate measures to mitigate them.

The plan ensures that risk-taking activities and practices are appropriate to meet customer needs while fulfilling AFSC's corporate strategy and goals.

The following discussion identifies some of the key risks the Corporation faces and how these risks are managed.

Strategic Planning

At its annual strategic planning retreat, the Board of Directors reviews the Corporate vision, mission, goals and strategic priorities following an economic and agricultural scan presented by experts outside this Corporation. During the planning retreat, the Board also reviews the mandates of the Corporation and its core programs and deals with strategies to address key risks.

Credit Risk

FACT:

In 2011, Alberta had 43,234 farms and 62,050 farm operators. Of which 71% are male, with the average operator age of 54.5 years.

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter. These measures do not eliminate risk, but they do diminish the risk of significant losses. The breakdown of our loan portfolio by sector is provided in Note 13 to the financial statements to highlight the areas of credit risk exposure by industry.

AFSC invests surplus funds generated by Production and Hail Insurance operations. To lessen the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. Investment in asset backed securities is a smaller portion of the portfolio and consists of securities with AAA rating and relatively lower levels of risk.

Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of their application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements are made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

AFSC accepts insurance coverage on credit, and offers a discount for premium payments received the earlier of June 25 or within 15 days of the billing date with the exception of Price Insurance products which must be paid within 15 days. Clients facing financial difficulties may ask to make

arrangements for a payment schedule, and unless specific payments arrangements have been approved, insurance is not renewed when there are outstanding premiums from a prior year.

AFSC enters into reinsurance arrangements with private sector reinsurance companies to reduce the Corporation's exposure to insurance program risk. AFSC, through its reinsurance broker, mitigates credit risk related to non-recoverability of reinsurance proceeds from private reinsurance companies by selecting reinsurance companies with superior credit ratings. AFSC minimizes the concentration of credit risk for the reinsurance contracts within the portfolio by engaging a wide range of reinsurance companies.

Interest Rate Risk

Interest rate risk is the impact that future changes in interest rates have on cash flows and fair value of assets and liabilities. To mitigate interest rate risk, AFSC focuses on matching the repayment timing of amounts borrowed with the repayment timing of loans made. AFSC allows its borrowers to repay loans in part or in full at any time without penalty. Repayment of loans by customers in part or in full prior to the contract date is a normal feature of our lending programs. The Corporation strives to minimize the gap between loan repayment and debt repayment on a regular basis. As loan repayments before maturity are not determinable with reasonable certainty, gaps are identified and dealt with when new borrowings are made. The gap position as of March 31, 2012 is presented in Note 13 to the financial statements.

AFSC's Investment Policy of surplus funds related to AgriInsurance, hay and pasture insurance, and hail insurance program operations further mitigates interest rate risk. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments need to be liquidated to meet financial commitments.

Liquidity Risk

Liquidity risk is the potential for financial loss if AFSC cannot meet its financial commitments for cash. As an integral part of liquidity management, the Corporation uses sound cash management practices through cash flow statements, with the objective of maintaining sufficient funds to meet business needs at all times. AFSC mitigates liquidity risks by retaining adequate bank balances in operating accounts. These accounts yield a reasonable rate of return through the GOA Consolidated Cash Investment Trust Fund. The investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. Additionally, the Corporation has access to advances from the GOA to meet short-term cash flow needs.

Insurance Risk

Insurance risk is the potential for financial loss if AgriInsurance claims exceed program premiums and reserves in a year. AFSC mitigates insurance risk by setting premium rates to break even with claim payments over a longer term of 25 years through the application of sound actuarial principles. The major insurance programs are certified by independent actuarial firms for long-term sustainability and reasonableness of premium setting methodology.

To mitigate risks inherent in the insurance business, the Corporation carries reinsurance for its AgriInsurance risks through reinsurance funds of the federal and provincial governments, described in more detail in Note 2 (j) to the financial statements. A summary of transactions in the two reinsurance funds is under Note 15 to the financial statements.

In order to further mitigate risks inherent in the insurance business, management has secured private sector reinsurance arrangements. This limits the Corporation's exposure to insurance program losses in the event that insurance claims exceed a threshold level determined in relation to premiums.

The Corporation offers price risk protection insurance for the cattle and hog sectors. In order to limit the risk exposure under the program, the Corporation entered into both Quota Share and Stop Loss reinsurance with private sector reinsurance companies. Under Quota Share reinsurance, risks associated with the program are shared with private sector reinsurance companies along with associated revenue, while Stop Loss reinsurance provides coverage in case crop losses exceed a threshold level determined in relation to premiums.

FACT:

AFSC staff operate offices in 54 communities across Alberta.

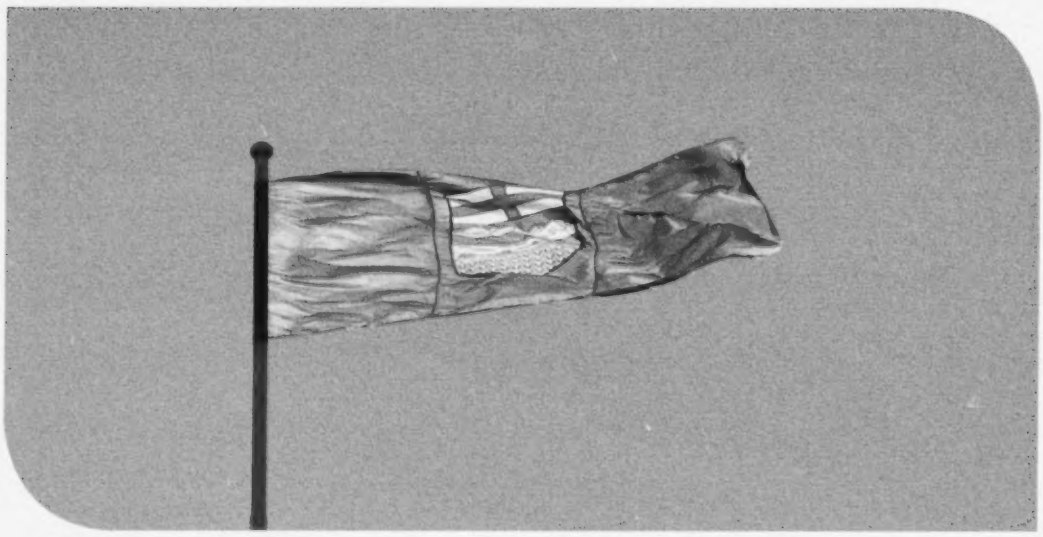
Operational Risk

Operational risk refers to the risk of loss resulting from insufficient or failed internal processes. AFSC's Enterprise Risk Management plan provides a framework and common understanding of risk and mitigation measures. In addition, corporate policies and procedures are in place to ensure adequate internal controls to reduce the exposure to operational risks.

Formal processes are in place to monitor compliance with policies and procedures. Managers oversee operational risk in their respective work areas. Finance, Human Resources, Administrative Services and Information Technology manage operational risks specific to their areas as follows:

Business Manager: operational risks inherent in businesses and processes
Finance: credit, interest rate, liquidity and financial controls
Human Resources: employee recruitment, retention, succession planning and employee discipline
Administrative Services: physical facilities and assets, employee safety and security, corporate liability and business continuity
Information Technology: computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information.

As part of overall Corporate Enterprise Risk Management, the Internal Audit department plans and conducts operational and functional audits based on risk assessments. This department also regularly examines internal process controls and compliance with policies and procedures. External auditors review the effectiveness of internal controls annually. Both external and internal auditing groups report their findings to the Board Audit Committee. The management team takes timely action in addressing the internal and external audit recommendations. Management presents progress reports on implementation of audit recommendations to the Board Audit Committee periodically.



Financial Highlights

NOTE: Please read the following information in conjunction with AFSC's financial statements and attached notes.

Overall, the Corporation recorded revenue of $930 million and expenses of $628 million resulting in a net surplus of $302 million. The surplus for the year was mainly due to lower crop losses relative to premiums as a result of better than normal yield and quality of crop during the year.

The Corporation's assets increased from $2,786 million to $3,253 million of which $1,601 million or 49 percent represents the loan portfolio. The liabilities of the Corporation increased from $1,738 million to $1,903 million mainly as a result of additional borrowing made to finance new loans.

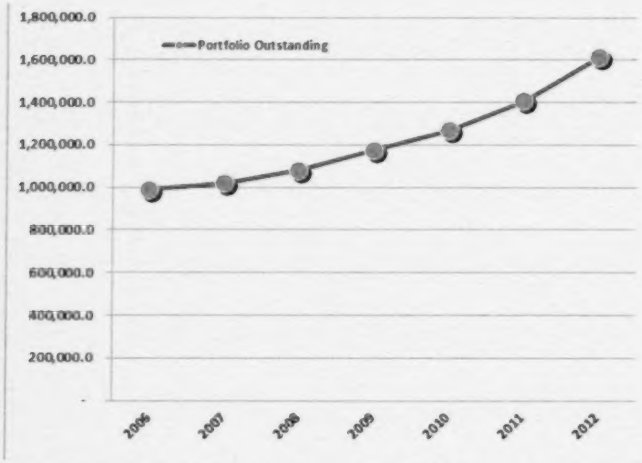
The surplus balance carried over increased to $1,351 million. Included in the surplus balance is $1,239 million in the Crop Insurance Fund made up of a $1,128 million surplus representing the national program, a surplus of $83 million representing Alberta initiatives, and a surplus of $28 million representing the Crop Reinsurance Fund of Alberta.

Lending Statistical Summaries

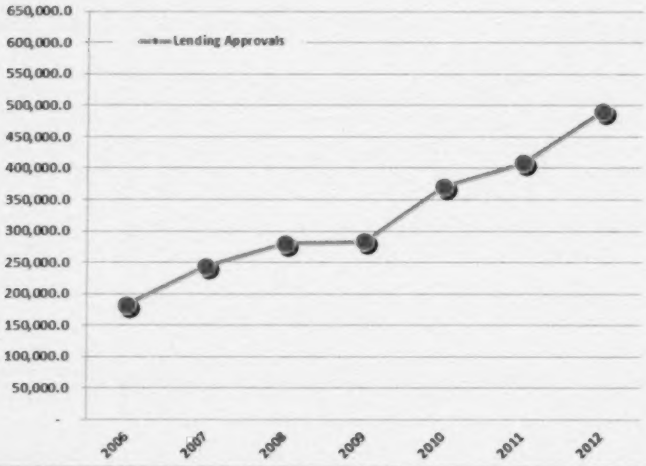
March 31, 2006 to March 31, 2012

March 31	New Loan Approvals ($,000)	Portfolio Outstanding ($,000)
2012	490,013	1,610,286
2011	407,438	1,403,323
2010	370,581	1,265,653
2009	282,610	1,174,018
2008	280,000	1,078,149
2007	243,400	1,017,374
2006	181,900	989,403

Total Loan Portfolio Outstanding 2006 to 2012 ($,000)



Total Loan Dollars Approved (New Lending) 2006 to 2012 ($,000)

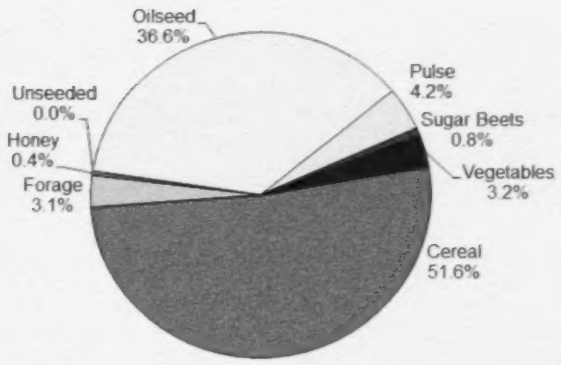


AgriInsurance Statistical Summaries

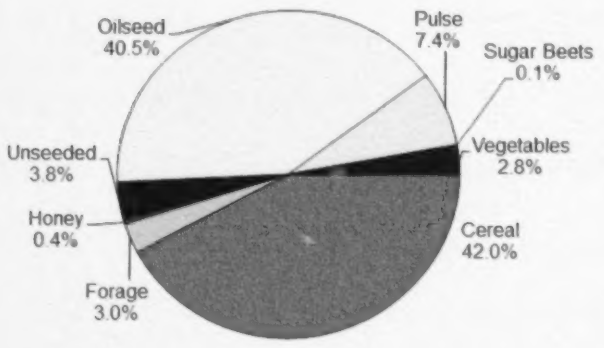
AgriInsurance for Annual and Perennial Crops (as at March 31, 2012)

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Loss $,000	Loss / Premium %
2011	18,719	19,965	3,887,821	612,875	305,757	49.9
2010	20,554	21,285	3,302,273	536,840	357,879	66.7
2009	18,895	19,717	2,758,388	489,993	544,098	111.0
2008	19,083	19,235	2,763,187	452,252	264,591	58.5
2007	18,719	17,560	2,292,314	306,790	242,608	79.1
2006	20,092	18,046	1,742,509	338,856	138,488	40.9

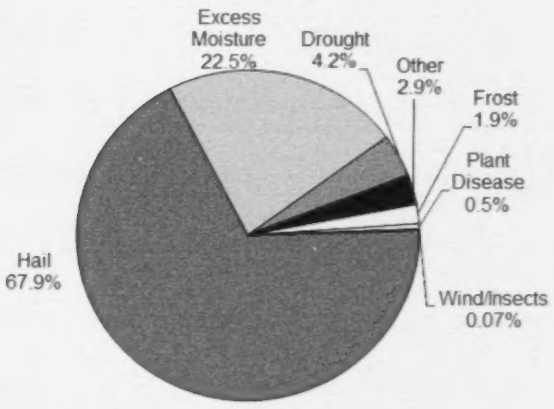
Total Insured Risk, 2011



Total Loss Dollars, 2011



Cause of Loss, 2011



AgriStability Statistical Summaries

Income Stabilization - AgriStability - Including Alberta Initiatives (as at March 31, 2012)

Claim Year	Number of Claims Processed	Support Level $,000	Average Support Level $	Number of Claims with Payment	Payment $,000	Average Total Payment $
2010	22,244	2,236,694	118,979	3,659	98,890	27,027
2009	26,751	2,482,545	107,237	7,783	218,904	28,126
2008	28,834	2,229,926	90,647	4,048	108,740	26,863
2007	31,782	2,381,014	90,013	4,967	145,263	29,245
2006	31,476	2,261,922	77,479	11,058	247,187	22,354
2005	31,529	2,392,166	79,498	12,169	250,931	20,620

AFSC operates under the authority of the Agriculture Financial Services Act and the Agriculture Financial Services Regulation as a provincial Crown Corporation. AFSC serves in a public policy role for the Government of Alberta (GOA). The Board of Directors provides leadership and direction to the Corporation and oversees management and performance.

Mandate

The Board of Directors is responsible to the Minister of Alberta Agriculture and Rural Development. The roles and responsibilities of the Board of Directors are set out in the Agriculture Financial Services Act and in a Memorandum of Understanding (MOU) between the Minister and the Board of Directors.

The Corporation is accountable to its stakeholders to manage its program operations in compliance with the regulations and applicable agreements.

Composition of the Board of Directors

As of March 31, 2012, the Board of Directors consisted of twelve Directors. There are eleven independent Directors and the President and Managing Director. The Minister of Agriculture and Rural Development appoints all Board Directors to the Board of Directors. The Board Directors have varied skills and experience and are entrepreneurs, primary agricultural producers, and agribusiness owners/operators. The Board Chair and four Committee Chairs are all independent members.

Governance

Members of the Board of Directors adhere to the Board Governance Handbook. New Board members are provided with orientation as soon as they assume their duties. The Board Code of Conduct and Ethics is reviewed annually, with each Board Director annually confirming compliance in writing. The Board, its Committees and individual Board Directors assess performance annually through a structured evaluation process. The Board continually identifies areas of potential development to enhance effectiveness in governance and in pursuing strategies to achieve continuous improvement.

The Board and Committees meet as often as required, and hold in-camera sessions. The Board ensures that public policy is considered in all decisions. Board members also participate in seminars and conferences to further enhance their skills in dealing with corporate business issues and governance.
Board Development activities benefit the Corporation by enhancing knowledge through annual training and development, on a rotational basis. Aligned with AFSC's corporate values, this allows for sound business decisions, being progressive and encouraging innovation, while taking responsibility for the client experience.

Board Committee Membership and Responsibilities as at March 31, 2012

For effective conduct of its affairs the Board of Directors utilizes four committees to oversee certain functions, each with its own reporting requirements and operate under formal terms of reference updated annually.

Minister of Agriculture and Rural Development:
Honourable Jack Hayden (to October 12, 2011)
Honourable Evan Berger (October 12, 2011 to May 8, 2012)
Honourable Verlyn Olson (May 8, 2012, current)

AFSC Board of Directors:
H.D. (Harry) Haney, *Chair*

Darcy Davis
Bill Daye
Brad Klak, *President and Managing Director*
Carol Haley
Pat James
Mel McNaughton
Ian Reynolds
Ken Skoberg
Gail Surkan
John Van Tryp
Tony Yelenik

AFSC Directors' Responsibilities

Strategic Management
Enterprise Risk Management
Corporate Governance and Stewardship
Communication with Stakeholders
Integrity and Ethical Conduct
Fiscal Responsibilities and Financial Reporting

Governance and Human Resources Committee

Harry Haney, Chair

Bill Daye
Brad Klak
Ken Skoberg
Gail Surkan

The Governance and Human Resources Committee makes recommendations to the Board with respect to governance practices, committee structure and membership, enterprise risk management, corporate performance, strategic management of human resources, and corporate communication.

Audit Committee

Bill Daye, Chair

Darcy Davis
Carol Haley
Pat James
Mel McNaughton
Ian Reynolds
Tony Yelenik

The Audit Committee oversees the fiscal management, financial reporting, annual budgets/quarterly forecasts, quarterly/annual financial statements, as well as internal/external audit plans, reports, and internal controls. The Committee is also responsible for enterprise risk management relating to the above items.

Credit Committee

Gail Surkan, Chair

Harry Haney
Brad Klak
Mel McNaughton
Ian Reynolds
John Van Tryp

The Credit Committee oversees lending operations, in addition to portfolio performance and credit risk exposure. The Committee ensures that lending programs are appropriate and sound lending principles are maintained.

Risk Management Programs Committee

Ken Skoberg, Chair

Bill Daye
Darcy Davis
Carol Haley
Pat James
Brad Klak
John Van Tryp
Tony Yelenik

The Risk Management Programs Committee reviews changes to existing risk management programs, development of new programs, and oversees risk management program delivery.

AFSC Executive Management Team

Brad Klak, President and Managing Director
Brian Brandon, Chief Information Officer
Donna Bryden, Vice-President, Human Resources and Payroll
Merle Jacobson, Vice-President, Risk Management
Krish Krishnaswamy, Vice-President, Finance and Corporate Affairs
Kelly Rich, Vice-President, Lending
Wayne McDonald, Senior Manager, Corporate Strategic Initiatives and Corporate Planning Office

Management's Responsibility for Financial Reporting

The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the Corporation contained in this annual report have been prepared and presented by management who are responsible for the integrity and fair presentation of the information.

These financial statements are prepared in accordance with Canadian public sector accounting standards. The financial statements necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. The internal control systems are augmented by periodic reviews by the Corporation's internal and external auditors.

The Auditor General of Alberta has been engaged to perform an independent external audit of these financial statements in accordance with Canadian generally accepted auditing standards and has expressed his opinion in the accompanying Independent Auditor's Report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Board Audit Committee, composed of Directors who are not employees of the Corporation. The Board Audit Committee meets with the internal auditors and the external auditors both in the presence and in the absence of management to discuss their audit including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The internal and external auditors have full and unrestricted access to the Board Audit Committee.

Brad Klak
President and Managing Director

R. (Krish) Krishnaswamy, B. Comm., C.M.A.
Vice-President, Finance and Corporate Affairs

AUDITOR GENERAL *Alberta*

To the Board of Directors of the Agriculture Financial Services Corporation

Report on the Financial Statements
I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 30, 2012

Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2012

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2012
(dollars in thousands)

	2012	2011
ASSETS		
Cash	$ 277,559	$ 367,845
Accounts receivable (Note 3)	12,081	14,238
Due from Government of Alberta	52,866	19,944
Due from Government of Canada	178,072	236,367
Loans receivable (Note 4)	1,601,350	1,397,154
Investments (Note 5)	1,084,846	701,471
Tangible capital assets (Note 6)	46,528	49,275
	$ 3,253,302	$ 2,786,294
LIABILITIES AND SURPLUS		
Accounts payable and accrued liabilities (Note 7)	$ 16,755	$ 15,029
Indemnities payable (Note 8)	189,912	339,708
Borrowing from Government of Alberta (Note 9)	1,683,078	1,371,656
Unearned revenue (Note 10)	12,976	11,535
	1,902,721	1,737,928
Surplus	1,350,581	1,048,366
	$ 3,253,302	$ 2,786,294

Contingencies and contractual obligations (Note 12)

The accompanying notes and schedules are part of these financial statements.

Bill Daye, Chair of the Audit Committee

Harry Haney, Chair of the Board

Brad Klak, President and Managing Director

R. "Krish" Krishnaswamy, Vice-President, Finance and Corporate Affairs

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2012

(dollars in thousands)

	2012		2011
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	$ 297,222	$ 283,147	$ 257,378
Interest	91,259	79,269	73,324
Contribution from Government of Alberta	317,100	285,278	285,142
Contribution from Government of Canada	243,603	237,470	236,287
Investment income	24,276	29,067	35,616
Fees and other income	15,725	15,574	15,113
	989,185	929,805	902,860
Expenses:			
AgriInsurance	407,418	372,649	405,086
Agriculture Income Support	152,239	123,274	171,469
Lending	100,007	90,244	85,997
Hail Insurance	42,192	30,934	32,461
Livestock Insurance	18,845	4,725	2,063
Wildlife Damage Compensation	5,809	5,764	10,411
	726,510	627,590	707,487
Surplus for the year	$ 262,675	302,215	195,373
Surplus at beginning of year		1,048,366	852,993
Surplus at end of year		$ 1,350,581	$ 1,048,366

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2012

(dollars in thousands)

	2012	2011
Operating activities:		
Surplus for the year	$ 302,215	$ 195,373
Non-cash items included in surplus	17,328	14,170
Changes in assets and liabilities relating to operations	(123,049)	84,220
Net cash provided by operating activities[1]	196,494	293,763
Investing activities:		
Proceeds from repayments of loans receivable and sale of properties	242,117	217,935
Loan disbursements	(451,409)	(356,977)
Purchase of investments	(750,631)	(570,396)
Proceeds on disposal of investments	367,265	371,465
Net cash utilized by investing activities	(592,658)	(337,973)
Capital activities:		
Purchase of tangible capital assets	(5,546)	(11,159)
Proceeds on disposal of tangible capital assets	128	56
Net cash utilized by capital activities	(5,418)	(11,103)
Financing activities:		
Borrowing from the Government of Alberta	775,721	1,069,865
Repayment of borrowing from the Government of Alberta	(464,425)	(918,687)
Net cash provided by financing activities	311,296	151,178
Net (decrease) increase in cash during the year	(90,286)	95,865
Cash at beginning of year	367,845	271,980
Cash at end of year	$ 277,559	$ 367,845

[1] Net cash provided by operating activities includes $57,209 (2011 $52,907) of interest paid.

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2012

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000.

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for public sector entities as recommended by the Public Sector Accounting Board (PSAB).

(a) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(b) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans are recorded at the lower of cost and net recoverable value. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated potential losses relating to a deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the balance sheet date. A methodology is applied to determine the Corporation's risk exposure to potential losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the loan interest rate is significantly lower than the corresponding interest rate on borrowing for the term and the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(c) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(d) Tangible Capital Assets

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of $5,000 or more is capitalized. Computer software acquired from external sources at a cost of $100,000 or more and software developed by the Corporation costing $500,000 or more are capitalized.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(e) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

(f) Fair Value of Assets and Liabilities

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Government of Alberta, Due from Government of Canada, Accounts payable and accrued liabilities and Indemnities payable. Fair values of Investments and Notes payable are disclosed in their respective notes.

Fair values of loans receivable are not disclosed. Loans receivable consists of developmental loans with uncommon terms such as interest rate rebates/incentives, concessionary interest rates, prepayment (in part or full) with no penalties applicable to all loans, fixed interest rates with longer terms and loans with relatively higher financial risks. Determining the fair values of loans receivable with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

(g) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, surplus and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 8).

(h) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance, Livestock Price and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as unearned revenue until earned.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(h) Revenue Recognition (continued)

Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as unearned revenue until earned.

(i) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(j) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance surplus of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 15).

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(j) Reinsurance (continued)

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance programs and for Livestock Insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

(k) AgriInsurance Surplus Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance surplus are restricted for AgriInsurance purposes only.

(l) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(m) Transactions with Related Parties

The Governments of Canada and Alberta significantly influence the programs delivered by the Corporation and are major contributors to the funding of the programs. Therefore, both governments are considered related parties. All related party transactions with the Governments of Canada and Alberta have been recorded at their exchange amount which is the consideration paid or received as agreed to by the related party (see Note 14).

(n) Surplus

Surplus represents the difference between the carrying value of assets held by the Corporation and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 3 Accounts Receivable

	2012	2011
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	$ 21,106	$ 20,056
Administration fees	870	1,584
Premiums from insured persons		
AgriInsurance program	9,021	8,381
Hail insurance program	402	817
Other	2,293	2,504
	33,692	33,342
Allowances for doubtful accounts		
At beginning of year	(19,104)	(21,840)
(Increase) decrease for this year	(3,156)	2,435
Write offs, net of recoveries	649	301
At end of year	(21,611)	(19,104)
	$ 12,081	$ 14,238

Included in the allowances for doubtful accounts is $21,106 (2011 $18,930) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. Also included in the allowances is $505 (2011 $174) for premiums from insured persons. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	2012			2011
	Farm	Commercial	Total	Total
Performing loans - non concessionary	$ 1,205,094	$ 362,150	$ 1,567,244	$ 1,356,398
Performing loans - concessionary	15,128	-	15,128	19,438
Impaired loans	5,691	22,223	27,914	27,487
	1,225,913	384,373	1,610,286	1,403,323
Accrued interest	23,590	1,837	25,427	24,774
Loan discount	(195)	-	(195)	(263)
	1,249,308	386,210	1,635,518	1,427,834
Allowances	(14,797)	(19,371)	(34,168)	(30,680)
Net carrying value	$ 1,234,511	$ 366,839	$ 1,601,350	$ 1,397,154

Impaired loans balance includes $1,222 (2011 $2,257) for properties held for sale acquired as a result of foreclosure actions.

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

Allowances for doubtful accounts for loans are as follows:

	Farm	Commercial	2012	2011
At beginning of year	$ 15,007	$ 15,673	$ 30,680	$ 24,680
Increase (decrease) for the year	(186)	7,242	7,056	8,055
Write-offs	(24)	(3,544)	(3,568)	(2,055)
At end of year	$ 14,797	$ 19,371	$ 34,168	$ 30,680
Specific allowance	$ 1,383	$ 12,359	$ 13,742	$ 13,844
General allowance	13,414	7,012	20,426	16,836
	$ 14,797	$ 19,371	$ 34,168	$ 30,680

Valuation allowances of receivables are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $2,956,675 (2011 $2,585,709).

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 4 *Loans Receivable (continued)*

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

Effective annual Interest Rate	2012	2011
Less than 2%	$ 49,486	$ 11,897
2.01% to 3.00%	99,198	56,840
3.01% to 4.00%	254,903	145,047
4.01% to 5.00%	488,066	459,694
5.01% to 6.00%	289,792	255,231
6.01% to 7.00%	302,989	290,256
7.01% to 8.00%	122,862	170,084
Over 8%	28,222	38,785
Allowance for doubtful accounts	(34,168)	(30,680)
	$ 1,601,350	$ 1,397,154
Weighted average annual interest rate	4.99%	5.40%

Note 5 Investments

	2012	2011
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 489,677	$ 384,414
Other provincial, direct and guaranteed	304,425	94,534
	794,102	478,948
Corporate securities:		
Asset backed securities, AAA rated	238,936	192,459
Senior bank notes	44,928	25,085
	283,864	217,544
	1,077,966	696,492
Accrued interest	6,880	4,979
	$ 1,084,846	$ 701,471

The fair value of investments at March 31, 2012 is $1,091,768 (2011 $698,705). Fair value is based on quoted market prices excluding accrued interest.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 5 Investments (continued)

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity [1]				
	Within 1 Year	1 to 5 Years	6 to 10 Years	2012	2011
Bonds and debentures	$ 86,464	$ 624,026	$ 83,612	$ 794,102	$ 478,948
Yield [2]	1.10%	1.47%	2.41%	1.53%	2.20%
Corporate Securities	13,500	270,364	-	283,864	217,544
Yield [2]	2.36%	2.28%	-	2.29%	2.94%
	99,964	894,390	83,612	1,077,966	696,492
Accrued interest	958	5,337	585	6,880	4,979
	$ 100,922	$ 899,727	$ 84,197	$1,084,846	$ 701,471

[1] For investments, term to maturity classifications are based on contractual maturity date of the security.

[2] For investments, yield represents the rate which discounts future cash receipts to the carrying amount.

Note 6 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software		
	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years	2012	2011
Cost						
At beginning of year	$ 347	$ 10,076	$ 6,917	$ 79,253	$ 96,593	$ 87,710
Additions	-	-	675	4,871	5,546	11,159
Disposals	-	(89)	(31)	(550)	(670)	(2,276)
	347	9,987	7,561	83,574	101,469	96,593
Accumulated amortization						
At beginning of year	-	3,678	3,619	40,021	47,318	42,085
Amortization expense	-	362	665	7,140	8,167	7,489
Disposals	-	(68)	(32)	(444)	(544)	(2,256)
	-	3,972	4,252	46,717	54,941	47,318
Net book value at March 31, 2012	$ 347	$ 6,015	$ 3,309	$ 36,857	$ 46,528	
Net book value at March 31, 2011	$ 347	$ 6,398	$ 3,298	$ 39,232		$ 49,275

Computer equipment and software costs include $1,752 (2011 $1,005) of costs incurred that are not amortized because they are still in the development stage.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 7 Accounts Payable and Accrued Liabilities

	2012	2011
Supplies and services	$ 10,026	$ 8,024
Salaries, wages and employee benefits	5,932	5,723
Reinsurance Premiums to Government of Canada	797	1,282
	$ 16,755	$ 15,029

Note 8 Indemnities Payable

	2012 (Note 2(i))	2011 (Note 2(i))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	$ 127,523	$ 248,774
Prior claim years	45,452	61,648
	172,975	310,422
AgriInsurance	14,627	27,480
Livestock price insurance	1,566	-
Wildlife compensation	731	1,351
Hail insurance	13	455
	$ 189,912	$ 339,708

Estimated indemnities payable of $189,912 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $106,762 to $149,062.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 9 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

Effective annual Interest Rate	2012	2011
Less than 2%	$ -	$ 60,000
2.01% to 3.00%	208,000	108,000
3.01% to 4.00%	734,238	408,517
4.01% to 5.00%	594,751	609,751
5.01% to 6.00%	125,080	163,148
7.01% to 8.00%	-	1,356
	1,662,069	1,350,772
Accrued interest	14,753	13,660
Unamortized premium	6,256	7,224
	$ 1,683,078	$ 1,371,656
Weighted average annual interest rate	4.07%	4.28%

Principal repayments due in each of the next five years and thereafter are as follows:

Year ending March 31,	2013	$ 96,053
	2014	$ 83,393
	2015	$ 45,479
	2016	$ 108,642
	2017	$ 65,507
	Thereafter	$ 1,262,995
		$ 1,662,069

The estimated fair value of borrowings as at March 31, 2012 is $1,793,700 (2011 $1,419,451). Fair value is an approximation of market value to the holder.

Note 10 Unearned Revenue

Unearned revenue is comprised of $12,976 (2011 $11,535) of premiums received from producers for AgriInsurance programs and fees for the AgriStability program relating to the next fiscal year.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 11 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $4,677 for the year ended March 31, 2012 (2011 $4,379).

At December 31, 2011, the Alberta Management Employees Pension Plan reported a deficiency of $517,726 (2010 deficiency $397,087) and the Alberta Public Service Pension Plan reported a deficiency of $1,790,383 (2010 deficiency $2,067,151). At December 31, 2011, the Supplementary Retirement Plan for Alberta Public Service Managers had a deficiency of $53,489 (2010 deficiency $39,559). The Corporation's share of these pension plans' deficiency is not determinable.

Note 12 Contingencies and Contractual Obligations

Contingent Liability

	2012	2011
Loan guarantees	$ 5,620	$ 7,791
Less allowances for losses	(150)	(200)
	5,470	7,591
Legal actions	397	197
Total contingencies	$ 5,867	$ 7,788

In the normal course of operations, the Corporation enters into agreements which may contain features that meet the definition of a loan guarantee. The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation.

Also in the normal course of operations, various legal claims are pending against the Corporation in connection with a variety of matters. As the outcome of the legal actions is not determinable, no provision has been recorded. The amount represents the total maximum exposure from these claims.

A contingent liability may exist for additional site remediation and related costs in respect of a property held for sale in addition to $3,256 (2011 $2,135) included in Accounts payable and accrued liabilities. Due to uncertainty surrounding the environmental obligations, it is not possible to determine the amount of the contingent liability.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 12 Contingencies and Contractual Obligations (continued)

Contractual Obligations

	2012	2011
Approved, undisbursed loans	$ 127,041	$ 90,382
Reinsurance	23,723	29,108
Operating leases	2,372	2,125
Total commitments	$ 153,136	$ 121,615

The operating lease contractual obligations are for accommodations with terms up to five years.

Note 13 Credit and Interest Rate Risk

(a) Credit Risk

Credit risk is the risk that a borrower may not pay amounts owing thus resulting in a loss.

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

	2012		2011	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	$ 750,021	47%	$ 654,368	47%
Cattle	408,455	26%	387,752	28%
Manufacturing	85,826	5%	76,534	5%
Accommodations and Other Services	77,447	5%	61,434	4%
Other Livestock	67,168	4%	61,535	4%
Trade - Retail and Wholesale	61,187	4%	50,946	4%
Commercial and Industrial	47,918	3%	25,195	2%
Professional Services	30,864	2%	21,445	2%
Transportation and Warehousing	25,134	1%	13,010	1%
Other	81,498	5%	75,615	5%
Allowance	(34,168)	-2%	(30,680)	-2%
	$ 1,601,350	100%	$ 1,397,154	100%

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 13 Credit and Interest Rate Risk (continued)

(b) Interest Rate Risk

Interest rate risk is the impact future changes in interest rates has on cash flows and fair values of assets and liabilities. Loan balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrowers repayment preferences.

The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment[1]				Not[2] Interest Rate Sensitive	2012	2011
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	$ 143,646	$ 489,333	$ 463,844	$ 503,943	$ 584	$ 1,601,350	$ 1,397,154
Yield	4.86%	4.96%	5.02%	4.14%	-	4.86%	5.39%
Borrowing from							
Government of Alberta	$ 96,053	$ 303,021	$ 634,412	$ 628,583	$ 21,009	$ 1,683,078	$ 1,371,656
Yield[3]	4.06%	4.01%	3.93%	3.56%	-	3.88%	4.46%
Net gap	$ 47,593	$ 186,312	$ (170,568)	$ (124,640)	$ (20,425)	$ (81,728)	$ 25,498

(1) For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes specific and general allowance, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 14 Related Party Transactions

Information is provided throughout these statements to disclose significant related party transactions the Corporation entered into, except for the following:

	2012	2011
Interest expense - Government of Alberta	$ 57,472	$ 53,093
Administration expense - Government of Canada	2,107	1,686
Administration expense - Government of Alberta	1,730	1,494

Note 15 Crop Reinsurance Funds

The contributions, withdrawals and accumulated surplus positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(j)):

	AgriInsurance Reinsurance Fund of Alberta		AgriInsurance Reinsurance Fund of Canada for Alberta	
	2012	2011	2012	2011
Opening surplus	$ 24,967	$ 22,907	$ 25,644	$ 23,584
Contributions	2,582	2,060	2,582	2,060
Closing surplus	$ 27,549	$ 24,967	$ 28,226	$ 25,644

The surplus balance in Crop Reinsurance fund of Alberta is consolidated in AgriInsurance Fund in Schedule 1.

Note 16 Comparative Figures

The 2011 figures have been reclassified where necessary to conform to 2012 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2012
(dollars in thousands)

	2012	2011	2012	2011	2012
	AgriInsurance Note 2(k)	AgriInsurance Note 2(k)	Agriculture Income Support	Agriculture Income Support	Lending
Revenues:					
Premiums from insured persons	$ 238,987	$ 214,993	$ -	$ -	$ -
Interest	553	505	892	807	77,719
Contribution from Government of Alberta	209,619	190,089	62,227	77,016	8,815
Contribution from Government of Canada	188,785	152,658	45,992	78,576	-
Investment income	26,824	32,874	1,176	1,820	1,074
Fees and other income	10	241	11,492	11,519	2,837
	664,778	591,360	121,779	169,738	90,445
Expenses:					
Indemnities	315,791	354,087	99,077	152,632	-
Salaries, wages and employee benefits	19,532	17,685	13,274	13,539	17,854
Supplies and services	10,022	9,062	5,677	5,346	5,090
Amortization of tangible capital assets	1,689	1,502	2,507	2,426	2,572
Interest	-	-	-	-	57,722
Reinsurance	25,171	22,741	-	-	-
Allowance for doubtful accounts and for losses (Note 3 & 4)	244	9	2,739	(2,474)	7,006
	372,649	405,086	123,274	171,469	90,244
Surplus (deficit) for the year	292,129	186,274	(1,495)	(1,731)	201
Surplus at beginning of year	946,912	760,638	13,273	15,004	70,814
Surplus at end of year	$ 1,239,041	$ 946,912	$ 11,778	$ 13,273	$ 71,015

Schedule 1

2011	2012	2011	2012	2011	2012	2011	2012	2011
Lending	Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
$ -	$ 42,989	$ 41,136	$ 1,171	$ 1,249	$ -	$ -	$ 283,147	$ 257,378
71,907	104	105	1	-	-	-	79,269	73,324
10,403	-	-	1,766	2,339	2,851	5,295	285,278	285,142
-	-	-	-	-	2,693	5,053	237,470	236,287
859	185	49	28	10	(220)	4	29,067	35,616
2,739	430	427	700	51	105	136	15,574	15,113
85,908	43,708	41,717	3,666	3,649	5,429	10,488	929,805	902,860
-	25,512	27,370	2,263	92	5,195	9,608	447,838	543,789
16,486	914	1,077	1,163	538	245	425	52,982	49,750
5,794	1,815	1,688	477	329	208	348	23,289	22,567
2,437	761	759	408	335	30	30	8,167	7,489
53,993	-	-	-	-	-	-	57,722	53,993
-	1,845	1,537	414	769	-	-	27,430	25,047
7,287	87	30	-	-	86	-	10,162	4,852
85,997	30,934	32,461	4,725	2,063	5,764	10,411	627,590	707,487
(89)	12,774	9,256	(1,059)	1,586	(335)	77	302,215	195,373
70,903	11,480	2,224	4,088	2,502	1,799	1,722	1,048,366	852,993
$ 70,814	$ 24,254	$ 11,480	$ 3,029	$ 4,088	$ 1,464	$ 1,799	$ 1,350,581	$ 1,048,366

Schedule 2

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF SALARIES AND BENEFITS
YEAR ENDED MARCH 31, 2012
(dollars in thousands)

	2012				2011
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chairman of Board	$ 74	$ -	$ -	$ 74	$ 83
Board members[4]	251	-	-	251	223
President and Managing Director	399	57	117	573	448
Vice-Presidents					
Vice-President, Finance & Corporate Affairs	226	13	66	305	260
Vice-President, Human Resources & Community Relations	211	7	61	279	246
Vice-President, Lending Operations	202	17	57	276	226
Vice-President, Risk Management	222	23	64	309	273

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to ten Board members during 2011/12 (eight in 2010/11).

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Athabasca AB T9S 1E2
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Lending Phone: (780) 675-8160
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Insurance Phone: (403) 381-5240
AgriStability & Insurance Fax:
(403) 382-4527
Lending Phone: (403) 381-5102
Lending Fax: (403) 381- 5178

LIOYDMINSTER (part time location)
Phone: (780) 853-8260
Fax: (780) 853-1982

MANNING
PO Box 147
116 - 4th Avenue SW
Manning AB T0H 2M0
Phone: (780) 836-3573
Fax: (780) 836-2844

MEDICINE HAT
111 - 7 Strachan Bay SE
Medicine Hat AB T1B 4Y2
AgriStability Analyst Ph. (403) 488-4507
Insurance & AgriStability Fax:
(403) 488-4516
Insurance Phone (403) 488-4509
Lending Phone: (403) 488-4508
Lending Fax: (403) 488-4518

OLDS
Provincial Building
101 - 5030 - 50th Street
Olds AB T4H 1S1
AgriStability Analyst Ph. (403) 556-4263
Insurance Phone: (403) 556-4334
Lending Phone: (403) 556-4222
Fax: (403) 556-4255

OYEN
PO Box 426
201 Main Street
Oyen AB T0J 2J0
Phone: (403) 664-3677
Fax: (403) 664-2687

PEACE RIVER
Bag 900 -23
9809 - 98th Avenue
Peace River AB T8S 1J5
Phone: (780) 617-7225
Fax: (780) 617-7229

PONOKA
PO Box 4426
Provincial Building
250 - 5110 - 49th Avenue
Ponoka AB T4J 1S1
Insurance Phone: (403) 783-7071
Lending Phone: (403) 783-7011
Fax: (403) 783-7925

PROVOST
PO Box 716
Provincial Building
5419 - 44th Street
Provost AB T0B 3S0
Phone: (780) 753-2150
Fax: (780) 753-2876

RED DEER
Unit #1 - 7710 Gaetz Avenue
Red Deer AB T4P 2A5
Insurance Phone: (403) 340-5379
Insurance Fax: (403) 340-7999
Lending Phone: (403) 340-5326
Lending Fax: (403) 340-7004

ROCKY MOUNTAIN HOUSE
4934 - 50 Street
Rocky Mountain House AB T4T 1B1
Lending: (403) 846-0006

RIMBEY
PO Box 888
Provincial Building
5025 - 55th Street
Rimbey AB T0C 2J0
Phone: (403) 843-4516
Fax: (403) 843-4150

SEDGEWICK
PO Box 266
4701 - 48th Avenue
Sedgewick AB T0B 4C0
Phone: (780) 384-3880
Fax: (780) 384-2156

SLAVE LAKE (part time location)
108 4TH Avenue
Slave Lake AB T0G 2A2
Phone: (780) 849-7331
Fax: (780) 849-7333

SMOKY LAKE
PO Box 602
Provincial Building
108 Wheatland Avenue
Smoky Lake AB T0A 3C0
Phone: (780) 656-3644
Fax: (780) 656-3669

SPIRIT RIVER
Provincial Building
1st Floor 4602 - 50th Street
Spirit River AB T0H 3G0
Insurance Phone: (780) 864-3896
Lending Phone: (780) 864-4244
Fax: (780) 864-2529

ST. PAUL
5025 - 49th Avenue
Provincial Building
PO Box 406
St. Paul AB T0A 3A4
Insurance Phone: (780) 645-6221
Lending Phone: (780) 645-6453
Fax: (780) 645-2848

STETTLER
PO Box 1807 (Insurance)
Bag 600 (Lending)
5020 50th Street
Stettler AB T0C 2L0
Insurance Phone: (403) 740-4200
Lending Phone: (403) 740-4209
Fax: (403) 740-4210

STONY PLAIN
Provincial Building
4709 - 44th Avenue
Stony Plain AB T7Z 1N4
AgriStability Analyst Ph. (780) 968-4952
Insurance Phone: (780) 963-0600
Lending Phone: (780) 963-4720
Fax: (780) 963-1251

STRATHMORE
325 - 3rd Avenue
Strathmore AB T1P 1B4
AgriStability Analyst Ph. (403) 361-9637
Insurance Phone: (403) 934-3616
Lending Phone: (403) 934-5353
Fax: (403) 934-5018

TABER
Provincial Building
5011 - 49th Avenue
PO Box 4
Taber AB T1G 1V9
Insurance Phone: (403) 223-7900
Lending Phone: (403) 223-7920
Fax: (403) 223-7985

THORHILD
County Administration Building
PO Box 400
801 - 1st Street
Thorhild AB T0A 3J0
Phone: (780) 398-3933
Fax: (780) 398-2087

THREE HILLS
Provincial Building
160 - 3rd Avenue S
Three Hills AB T0M 2A0
Insurance Phone: (403) 443-8515
Lending Phone: (403) 443-8510
Fax: (403) 443-7519

VALLEYVIEW
Provincial Building
5102 - 50th Avenue
PO Box 1046
Valleyview AB T0H 3N0
Phone: (780) 524-3838
Fax: (780) 524-4565

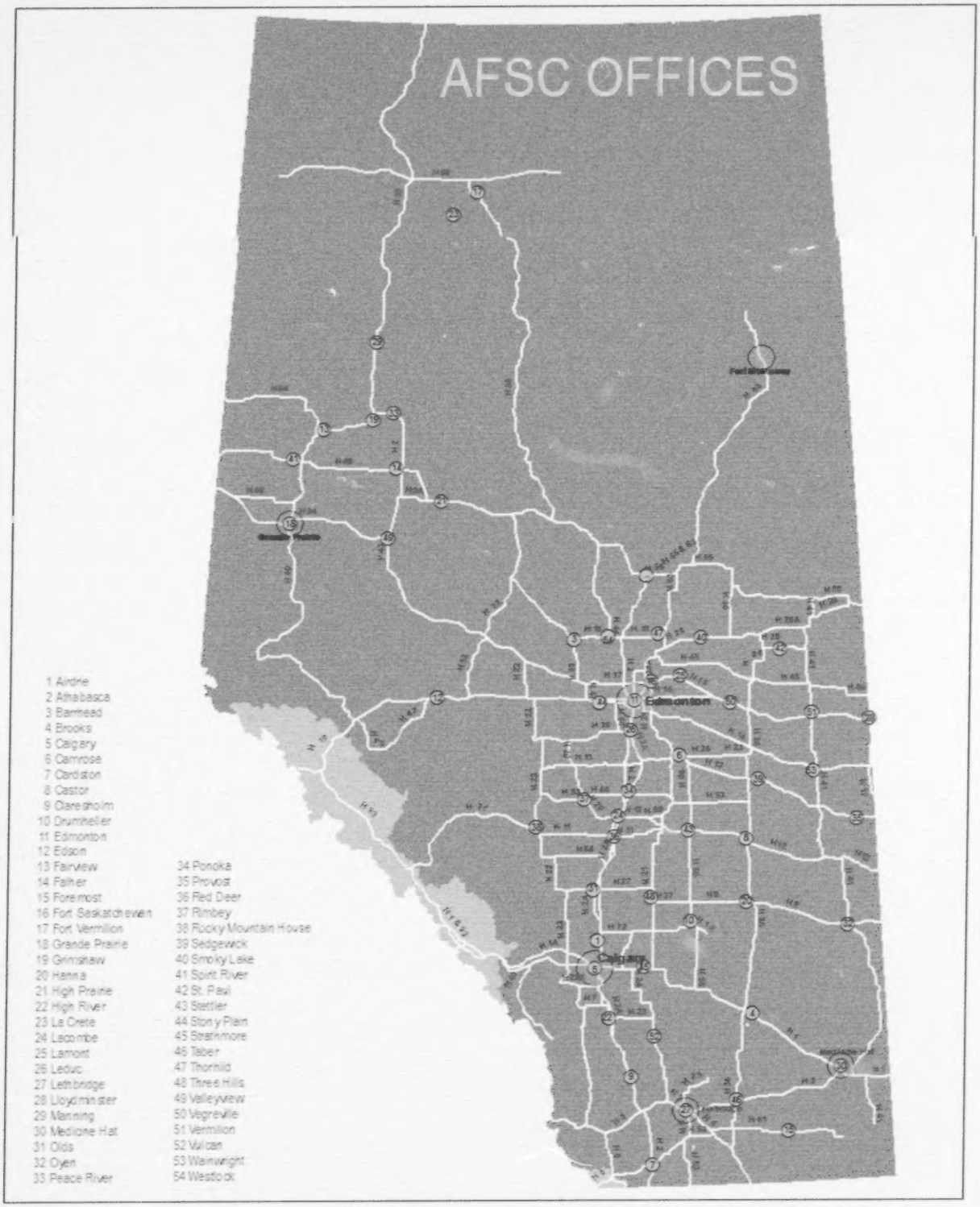
VEGREVILLE
PO Box 1440
Vinet's Village Mall
Suite 138 4925 - 50th Avenue
Vegreville AB T9C 1S6
AgriStability Analyst Phone:
(780) 603-2332 Ext. 2
Phone: (780) 603-2332
Fax: (780) 632-3385

VERMILION
PO Box 10
Provincial Building
4701 - 52nd Street
Vermilion AB T9X 1J9
AgriStability Analyst Ph. (780) 853-8238
Phone: (780) 853-8266
Fax: (780) 853-1982

VULCAN
PO Box 847
102 - 1st Street S
Vulcan AB T0L 2B0
Insurance Phone: (403) 485-2766
Lending Phone: (403) 485-5141
Fax: (403) 485-2947

WAINWRIGHT
Provincial Building
810 - 14th Avenue
Wainwright AB T9W 1R2
Insurance Phone: (780) 842-7547
Lending Phone: (780) 842-7542
Fax: (780) 842-4948

WESTLOCK
Provincial Building
2 - 10003 - 100th Street
Westlock AB T7P 2E8
AgriStability Analyst Ph. (780) 349-6253
Insurance Phone: (780) 349-4544
Lending Phone: (780) 349-4529
Fax: (780) 349-5240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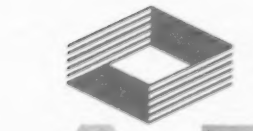

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